FINANCIAL TIMES

Today's surveys
Pension Fund Investment
Asian Financial Markets
Separate sections

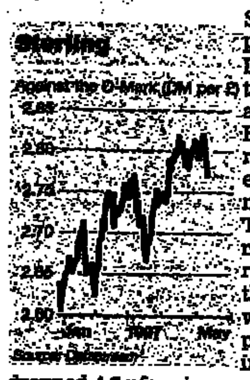
Personal view
Kenneth Clarke on the Bank of England
Page 18

Vietnam
US rebuilds relations
Page 19

FT WEEKEND
The goldrush to ruin
TOMORROW

World Business Newspaper http://www.FT.com FRIDAY MAY 9 1997

Exchange rate report drives £ down against DM



Sterling lost nearly 5 pfennigs against the D-Mark yesterday after the market was swept by an unsourced report that Britain was considering rejoining the European exchange rate mechanism at a rate of DM2.50. The UK Treasury dismissed the report but the rumour nonetheless set the pound on a slide which was fuelled by profit-taking and a falling dollar. Sterling dropped 4.7 pfennigs against the D-Mark to close in London at DM2.767. Page 31 ; Lex, Page 20

Olivetti, troubled Italian information technology group, expects to cut consolidated pre-tax losses in its core businesses by almost a third to L264.2bn ($153.9m) in the first half. It told Milan analysts it planned to cut losses by L96bn compared with a pre-tax loss of L360.2bn for the first half of 1996 – the first time an Italian company has given detailed estimates for first-half figures.

WTO rules on beef ban: The World Trade Organisation has ruled that the European Union unfairly barred US meat shipments in the "hormone beef" dispute, a US trade group official said. Since 1989, Europe has barred imports of US beef produced with synthetic growth hormones, citing health concerns. But US officials argued the hormones were safe.

French sales blamed: UK-based Body Shop International blamed difficulties in France for a dip in annual pre-tax profits. Pre-tax profits declined 3 per cent to £31.7m ($51.35m) after a £5.5m provision for loans made to the company's franchises in France. Page 27

Bre-X man seeks Cayman residence: John Felderhof, head of exploration for Bre-X Minerals and the "discoverer" of the non-existent Busang gold deposit in Indonesia, has applied for permanent residency in the Cayman Islands. This would help protect Mr Felderhof, who denies involvement in any fraud, against any criminal or civil legal actions in North America. Page 20; Editorial comment, Page 19

Juppé on the attack: French prime minister Alain Juppé tried to regain momentum in the election campaign by challenging Socialist leader Lionel Jospin on what he considers the four weakest points in the Socialist platform – taxes, immigration, privatisation and Europe. Page 2

Gandhi's widow to join party: Sonia Gandhi, Italian-born widow of former Indian prime minister Rajiv Gandhi, has decided to join his Congress party after refusing membership for years, members of parliament said. Page 5

Lonrho sheds sugar: Lonrho, UK-based conglomerate, cut links with the sugar business on which its fortunes were founded 34 years ago. It has sold its 94.25 per cent interest in Lonrho Sugar Corporation for £227m ($367.7m) to Illovo Sugar of South Africa. Page 21 ; Observer, Page 19

Zimbabwe probe urged: Zimbabwe's high court has recommended a government investigation into how funds for a low-income housing scheme ended up being used to build luxury homes for state officials and President Robert Mugabe's wife.

Fuji Photo Film of Japan has raised the spectre of a US price war by announcing that it is to start making 35mm colour film in America for the first time. The move will pit it directly against US rival Eastman Kodak in Kodak's home market. Page 20

Drug eradication turns violent: Farmers in eastern Bolivia clashed with police supervising the destruction of their coca fields. One officer was killed and 14 people injured as the police supervised civilians cutting down the illegal fields with machetes.

Vietnam passes trade law: Vietnam adopted a trade law designed to prepare it for membership of the World Trade Organisation. The legislation enshrines the right of equality before the law, but maintains advantages for Vietnamese bodies bidding for contracts. Page 4

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7,179.57	(+93.92)
NASDAQ Composite	1,336.81	(+13.70)
Europe and Far East		
CAC40	closed	
DAX	closed	
FTSE 100	4,580.4	(+42.9)
Nikkei	20,061.81	(+12.91)

US LUNCHTIME RATES

Federal Funds	$5\frac{5}{8}$%
3-mth Treas Bills: Yld	5.197%
Long Bond	$96\frac{3}{32}$
Yield	6.931%

OTHER RATES

UK: 3-mo Interbank	$6\frac{1}{2}$%	($6\frac{17}{32}$%)
UK: 10 yr Gilt	$101\frac{3}{8}$	(101)
France: 10 yr OAT	closed	(98.6)
Germany: 10 yr Bund	closed	(101.88)
Japan: 10 yr JGB	103.3874	(103.999)

NORTH SEA OIL (Argus)

Brent Dated	$18.36	(17.91)

GOLD

New York: Comex		
(May)	$343.8	(341.2)
London:		
close	$344.2	(341.3)

DOLLAR

New York: lunchtime		
£	1.62825	
DM	1.7058	
FFr	5.7545	
SFr	1.44435	
Y	123.765	
London:		
£	1.6207	(1.6365)
DM	1.7075	(1.7194)
FFr	5.7619	(5.8008)
SFr	1.4425	(1.4589)
Y	123.795	(124.845)
Tokyo close:	Y 123.75	

STERLING

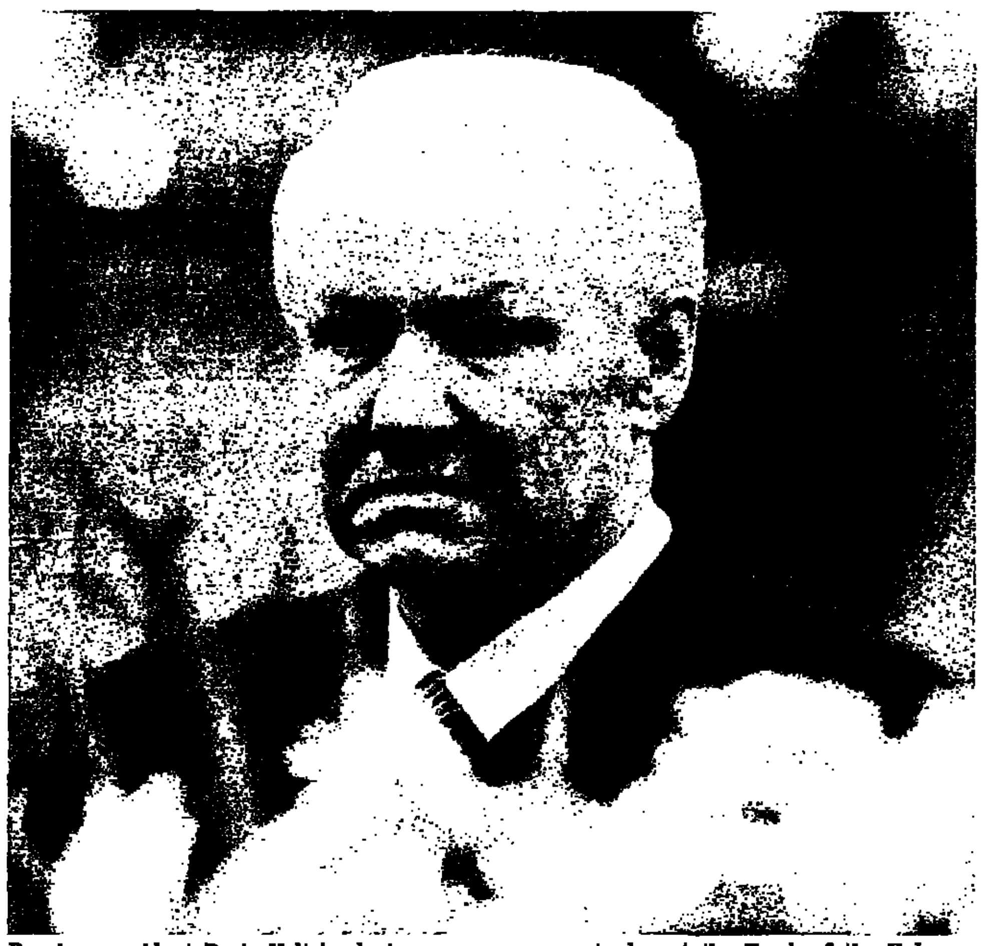
DM	2.7673	(2.8138)

9 770174 736159 19

Yeltsin '98 per cent certain' of agreement on alliance's plans

Russia and Nato near to deal on expansion

By Chrystia Freeland in Moscow and Bruce Clark in Washington



Russian president Boris Yeltsin during a ceremony yesterday at the Tomb of the Unknown Soldier in Moscow. Mr Yeltsin may play a personal role in talks on Nato expansion Reuter

Russia and Nato seem poised to reach an agreement next week on the contentious issue of the western alliance's eastward expansion, after President Boris Yeltsin of Russia said yesterday that the deal was "98 per cent" completed.

The Kremlin chief said he might take part in talks between Mr Yevgeny Primakov, Russian foreign minister, and Mr Javier Solana, Nato secretary general, in a further sign that Moscow might be preparing to make a final push for an agreement.

During weeks of intense and secretive negotiation, various *Russian officials* have suggested a deal was about to be signed - but Mr Yeltsin's word carries more weight.

"They must discuss the outstanding problems at their meeting on May 13, maybe with my participation, so as to have the final document ready," Mr Yeltsin said, after laying a wreath at the Kremlin Tomb of the Unknown Soldier as Russia prepared to celebrate the anniversary of its victory in the second world war.

He added that he hoped to be able to sign a concluded pact at a ceremony planned for May 27 in Paris. Poland, Hungary and the Czech Republic are likely to be the first countries invited to join Nato.

To protect himself against nationalist charges of surrendering geopolitical advantage to the west, Mr Yeltsin insisted he was merely making the the best of what he still judged to be a bad situation. Disagreement over Nato expansion was the most "acute issue between Russia and the US and NATO *since the Cuban [missile]* crisis".

"This [a deal with Nato] would reduce the threat to our national security though it would not fully remove it," the Russian leader said. "We still remain opposed to the expansion." Mr Yeltsin, who has staked his reputation on maintaining a good relationship with the west, nevertheless *seems strongly personally* committed to reaching an agreement with Nato before its planned embrace of eastern European states in July.

It was only after a face-to-face meeting between Mr Yeltsin and Mr Bill Clinton, US president, in Helsinki in February that Russia toned down its rhetorical attacks on Nato and began serious work *on a pre-expansion deal.*

Russia and Nato are still haggling over the western alliance's military and troop deployments in its new member states, with Moscow pressing for a Nato pledge not to move its military machine eastwards. Nato has refused to offer a binding commitment, although it has assured Moscow it has "no intention, *no reason and no plan*" to deploy nuclear weapons on the territory of new member states. Western diplomats said Nato was proposing that changes to the Conventional Forces in Europe treaty, a

Continued on Page 20

Wall Street profits boost NY budget

Mayor unveils surprise tax cut package

By Richard Tomkins in New York

Soaring Wall Street profits enabled Mr Rudolph Giuliani, mayor of New York City, to unveil a surprise package of vote-grabbing tax cuts yesterday that appeared calculated to ensure his re-election later this year.

Children will receive new school books, the sales tax on clothing will be slashed, and commuters will see big savings on bus and subway fares - mostly because of a windfall surplus in city finances caused by the Wall Street boom.

Mr Giuliani announced that New York would end its financial year to June 30 with an $856m surplus on its $34bn budget, the biggest revenue surplus in its history and a *sharp turnabout from the* budgets of previous years. Until recently, the city's finances had been in a mess. New York had largely missed out on the recovery across the rest of the US, and a combination of rising spending and stagnant revenues was in danger of plunging the city into its worst financial crisis since its near-bankruptcy in the 1970s.

Mr Giuliani, New York's first Republican mayor in a generation, came to office in 1994 with a commitment to put the city on a sound financial footing. His first three years in office were characterised by deeply unpopular cuts in public spending.

But now, with city elections looming in November, Mr *Giuliani has been able to adopt* a giveaway budget because the city's tax revenues have been boosted by a jump in Wall Street's profits to a record $11.3bn last year, up from $7.4bn the year before.

In line with Mr Giuliani's tax-cutting policy, part of the budget surplus will be used to eliminate the city's 4 per cent sales tax on clothing costing under $500. Other tax cuts will include the elimination of the $175-a-year tax on juke boxes and slot machines.

Spending increases will include an extra $70m for school books and a reinstatement of the arts curriculum after an absence of 25 years. "We're putting more money into our schools to teach our *children to read, to move them* towards computer literacy, and to help them appreciate the beauty of the arts," said Mr Giuliani.

In addition, commuters will get big fare savings from a new rule allowing free transfers between buses and subways. At present, commuters can go anywhere on the bus or subway system for a flat fare of $1.50, but cannot get a free transfer from one to the other.

Mr Giuliani has also benefited from an astonishing fall in the New York crime rate since he became mayor, and with the city economy also doing well he now appears unassailable as a candidate for re-election.

He denied the budget was intended as a vote-catcher. He said the city was reaping the gains of a financial strategy that had reduced the size of local government. "The mistakes of past excess spending will not be repeated," pledged Mr Giuliani.

Japanese bank sells Y30bn of property bad loans

By Gillian Tett in Tokyo

Sanwa Bank has become the first of Japan's large banks to tackle its property-related bad loans by restructuring them and selling the debt as bonds to domestic investors.

The deal to restructure Y30bn ($240m) of bad loans could boost Japan's fledgling securitisation market. Groups such as the Bank of Tokyo Mitsubishi are now seeking similar deals, and interest in the securitisation market among foreign groups is rising: the US group Bankers Trust recently concluded a deal with ailing Nippon Credit Bank to develop securitisation products.

Sanwa is also in negotiations with a foreign consortium of investors to conclude a second Y30bn securitisation deal. If it goes ahead, the two deals would collectively remove about 10 per cent of Sanwa's total bad debts from its accounts.

Although the sums of money are relatively small, the deals are significant because Japanese banks have been *reluctant to restructure* their property-related bad loans this way, hoping property prices would eventually recover.

Securitisation of other assets has already occurred in Japan and some restructuring of the banks' bad loans is also under way. However, these agreements have not been fully fledged bad loan securitisations, and most have left the Japanese banks as the main guarantor of the loan.

In Sanwa's case, the bank has agreed to accept a genuine loss: it has *sold* the loans for about 15 per cent of their face value. While Japan's *strongest* banks, such as Sanwa, can tolerate genuine losses, many weaker ones prefer to sell their bad loans over several years through auctions.

Mr Takio Kobayashi, Sanwa manager in charge of the deal, said: "This is the first deal of its type in Japan. We decided to do it because we have

Continued on Page 20

BCCI fraudster is given record 14-year jail term

By John Mason, Law Courts Correspondent

Mr Abbas Gokal, the former shipping tycoon, was sentenced to 14 years in prison at London's Old Bailey criminal court yesterday following his conviction for a $1.2bn fraud that helped prompt the col*lapse of the* Bank of Credit and Commerce International.

The sentence, the largest imposed in the UK for fraud, was accompanied by a confiscation order compelling Mr Gokal to repay £2.94m. The court ruled that *in spite of his* claims to have lost virtually all his money, Mr Gokal had hidden substantial assets. He faces a further three years in jail if he fails to pay.

Last month, Mr Gokal, former head of the Geneva-based Gulf Group shipping empire, was convicted of defrauding BCCI depositors of $1.2bn by obtaining illegal loans from the bank and of conspiring with BCCI staff to mount a complex cover-up to fool auditors and banking regulators. The fraud was the largest ever prosecuted in the UK.

Mr Justice Buxton said Mr Gokal was a "intelligent, sophisticated and unscrupulous" man who had been entirely willing to expose BCCI depositors to huge risks. He told him: "You have shown not the slightest apology or remorse for these massive frauds or for the damage and loss that your conspiracies have caused to many thousands of people."

The judge said Mr Gokal had hoped to avoid justice by lying repeatedly and making unwarranted allegations against regulators and Price Waterhouse, the BCCI auditors. "That plan might indeed have succeeded had it not been for the meticulous and determined way in which this case has been investigated and presented by the Serious Fraud Office."

The judge rejected calls by the SFO for the £2.94m to be paid to BCCI creditors as compensation. The money, if paid, will go the the Treasury.

BCCI liquidator Mr Christopher Morris, of accountants Deloitte & Touche, said: "It is disappointing that the judge did not see fit to make an order so that some compensation would flow to creditors."

The liquidators last year won a civil judgment ordering Mr Gokal to pay them £850m. Mr Morris said: "I find it difficult to believe that someone had that amount of money pass through his hands and *now has nothing left*".

The judge ordered Mr Gokal to pay the prosecution costs of £4.3m but suspended this until the SFO produced more evidence about his wealth.

The ruling that Mr Gokal has substantial assets is likely to reinforce government moves to clamp down on legal aid for some fraud defendants. Mr Gokal was granted legal aid unofficially estimated at between £2m and £3m.

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Juppé in counter-attack on Socialists

PM mounts four-pronged challenge in French election campaign

By David Buchan in Paris

Mr Alain Juppé, prime minister, yesterday sought to regain momentum in France's election campaign by challenging the Socialists on what he considered the four weakest points in their platform – taxes, immigration, privatisation and Europe.

In a communique, Mr Juppé demanded answers from Mr Lionel Jospin, the Socialist leader, on "the questions everyone is posing about the Socialists".

These were how Mr Jospin proposed to fulfil his programme without raising taxes, how after scrapping recent immigration laws he planned to prevent "a massive return" of illegal immigration, and how he planned to bridge divisions in his own party over privatisation and with the Communists over Europe and the single currency.

The Socialist leader, whose morale has been boosted by opinion poll gains, promised early answers so as not to "leave Mr Juppé anxious".

The Gaullist prime minister's counter-attack came after a day in which President Jacques Chirac's attempt to reinvigorate the government campaign, with a widely-published but cautiously-worded article, fell rather flat, and after potentially damaging comments from former president Mr Valéry Giscard d'Estaing on television on Wednesday night.

Mr Giscard d'Estaing, who created and until last year led the centre-right UDF that is the Gaullists' coalition partner, said he had advised Mr Chirac not to dissolve parliament. He said he had argued that the early election was risky "because the polls would show that it was not the functioning of the [government] majority that was the problem, but rather that most French were unhappy with the way that they have been governed". The first round of voting in the election will take place on May 25.

Damning with very faint praise, Mr Giscard d'Estaing said the Juppé government's record was "not all bad".

He went on to advise Mr Chirac to heed the message from the public which "wants to be governed in another way".

Mr Laurent Fabius, the former Socialist prime minister, yesterday sought to guard against the possibility of a vacuum in the Socialist campaign if its main target were to remove himself by denouncing "the policies of the right, with or without Juppé". The government had chalked up a "triple record of unemployment, deficits and taxes,", he claimed, and its policies "would be pursued with or without Juppé".

Polls earlier this week showed the left drawing level with the right in number of votes, but still several dozen seats behind the right.

However, an Ipsos poll taken on May 6-7 and published in today's Le Point magazine, showed the Socialists and Communists on the same 38 per cent as the RPR-UDF coalition, but ahead if they can woo ecologists (6 per cent) and the extreme left (1.5 per cent). The Ipsos projection in seats was for the right to end up with only four seats more than the left.

Lex, Page 20

Jacques Chirac on the campaign trail yesterday Reuter

Swedish tax exodus threatens

Big companies are considering moving their HQs abroad, writes Greg McIvor

Seldom have relations between Sweden's governing Social Democrats and the country's big corporate sector been so strained. The two sides, already at loggerheads over the government's plan to scrap nuclear power, have quarrelled again this week over a threat by several large companies to move their headquarters abroad because of high taxes.

An announcement by the telecommunications group Ericsson, Sweden's biggest exporter, that it is considering doing just that has turned up the heat in a simmering dispute between the two sides over industrial policy.

While government ministers accused Ericsson of self-interest and playing politics, Mr Lars Ramqvist, its chief executive, insisted that a 59 per cent top income tax rate was making it almost impossible to attract highly-trained foreign staff to work in Sweden. Meanwhile, many of Sweden's most talented researchers were voting with their feet and leaving the country, he said.

The company is now evaluating the benefits of switching senior management functions abroad. It is not alone: Aga, a leading industrial gas supplier, is conducting a similar study, and the boards of several other large corporations are thought to be reviewing their options.

To some extent, the trend is a natural consequence of Sweden's small size and its high number of large, export-oriented corporations. Ericsson, which alone accounted for 12 per cent of Swedish exports last year, has 60 per cent of its production and research and development in Sweden but only 6 per cent of its sales.

As much as nine-tenths of Aga's sales are in foreign markets. Similar patterns apply to other well-known names such as carmaker Volvo, appliance group Electrolux and pharmaceuticals concern Astra.

Industry and the government have been at odds since the SDP last year made plain its determination to dismantle Sweden's nuclear power industry, which supplies half its electricity needs. The step was seen by business as damaging industrial competitiveness, and prompted angry exchanges between top executives and leading SDP politicians.

The tensions resurfaced this week. Mr Göran Persson, the prime minister, said a relocation by Ericsson would be "illogical" and in effect accused Mr Ramqvist of crying wolf at a time when his company's profits were at record levels.

Yesterday, Mr Anders Sundström, the trade minister, entered the fray, brandishing a US Chamber of Commerce report identifying Sweden as the fourth most favourable country for international investment.

Sweden's appeal to investors has undoubtedly grown in recent years as it has embraced financial deregulation and European Union membership. Years of net investment outflow have been transformed since 1993 into a gentle inflow, while SDP-led reforms at the start of the decade smoothed out some of the excesses of Sweden's high tax regime. Corporation tax, at 28 per cent, is today the lowest in the European Union alongside Finland.

Nevertheless, Sweden still retains one of the heaviest tax burdens in the OECD. Payroll taxes are among the highest in the EU: employers pay 33 per cent of employee remuneration to social insurance funds, plus an extra 6-8 per cent for complementary pension schemes.

The basic income tax rate is 31.7 per cent and anyone with an annual salary above SKr209,100 ($26,800) is classed as a high income earner. "The general tax structure here is clearly a deterrent," says one senior Swedish executive. According to one US company, an employee who would cost $150,000 in the US would cost $350,000-$400,000 in Sweden.

"Of course this is a problem," says Mr Kai Hammerich, a former top executive who now runs the state-funded Invest in Sweden Agency. "It makes it difficult for us to compete with our European neighbours."

Until now, the only two large industrial groups to have left Sweden for reasons of taxation or business infrastructure are Ikea, the furniture retailer, and Tetra Laval, the packaging group. But, says Mr Hammerich, the tax regime remains an encumbrance in particular for companies such as Ericsson and Astra, which run large R&D operations that rely on attracting and retaining highly-qualified personnel.

Despite the current imbroglio, the SDP has historically been broadly friendly to big business, recognising its importance to the economy and employment. There are already signs that industry's criticisms may be biting.

The government is considering introducing tax breaks for executives on limited-duration postings in Sweden. Many of the country's key EU competitors, such as Denmark, Finland, Britain and the Netherlands, already offer lower rates to expatriate employees.

The risk is that it might come too late for companies such as Ericsson. Only this week it announced the relocation of the headquarters of its transport and cable networks business from Stockholm to the UK.

Brussels in water row with Ireland

By John Murray Brown in Dublin

Water, already an issue in the widely expected Irish general election, has now become a bone of contention with the European Commission, which has criticised Dublin's plans to abolish charges for domestic users.

With parliament voting on Wednesday to scrap water rates, it emerged yesterday that Mrs Monika Wulf Mathies, the regional affairs commissioner, had raised the Commission's concerns about the move in a private letter to Mr Ruairi Quinn, the Irish finance minister, last week.

And in what was seen in Dublin as an implicit snub to Mr John Bruton's government, Mrs Wulf Mathies also announced that Brussels from now on would only provide 80 per cent of the financing for water projects, not 85 per cent as hitherto.

Ireland is set to receive I£1.1bn ($1.64bn) under the cohesion fund set up to help finance infrastructure improvements in the peripheral economies of Ireland, Spain, Portugal and Greece. Half the amount is targeted at water and other environmental projects, the rest at the transport sector. Commission officials estimate that, of the current 1993-1999 funding, there is still I£100m to be disbursed for water schemes.

Brussels believes the decision to scrap water charges is "contrary to the Maastricht Treaty" which establishes "the polluter pays principle" to make consumers pay for water use.

Ireland will, in any event, be under pressure to re-impose some form of cost recovery on water use under an environmental directive to be implemented by all EU members by 2010.

The Brussels view was broadly endorsed by the Economic and Social Research Institute, a Dublin think-tank which advises the government. In a report on the environment this week, it called for the introduction of water metering, which is widely used in the EU.

Although Mrs Wulf Mathies has stressed the total amount of EU aid will remain the same – but spread over more projects – the government is clearly irked at having to foot a larger portion of the bill, particularly in an election year. One government official even accused the commissioner of "interfering in the Irish political process".

Mr Bruton has still to announce an election date, although June 6 now seems the most likely. The coalition government clearly hopes to exploit differences on the water issue between the small right-of-centre Progressive Democrat party of Ms Mary Harney and Mr Bertie Ahern, the populist Fianna Fail leader.

Party strategists also believe that, by scrapping water rates, the government can outmanoeuvre the Greens or other single-issue independent candidates who might seek to exploit the issue. This happened in a by-election in Dublin South West last year.

According to a poll published yesterday, Mr Bruton's Fine Gael-led coalition with Labour and Democratic Left is 11 points behind the Fianna Fail-PD alliance, three points less than a week ago.

Russia weighs price of privatisation

As the euphoria inspired by the collapse of communism has given way to a more sober understanding of the difficulties of transition to a market economy, the problem of corruption has become the subject of intellectual debate.

Observing the instant fortunes flaunted on the streets of Moscow, Almaty or Kiev – and the poverty in the hinterlands of the former Soviet Union – many analysts have been tempted to conclude that instead of creating open, competitive and efficient markets, the shift away from communism has merely enriched and empowered a corrupt new elite.

Even the most fervent advocates of the Soviet bloc's free market revolution have begun to warn that corruption threatens to undermine the post-communist transformation.

In a recent address in Moscow, Mr Michel Camdessus, managing director of the International Monetary Fund, cautioned that "Russia risks being mired in a no-man's-land between a centrally planned system and a fully functioning market economy", adding that one of the biggest menaces was corruption.

Domestically, disgust with corruption in the highest reaches of government has, in many circles, grown into disenchantment with the market transformation itself. This scepticism was nicely captured by a Communist campaign crafted ahead of last year's Russian presidential elections. At rallies across the country Communist leaders' inveighed against "prikhvatizatsia" – a play on the word "privatizatsia" which might be loosely translated as "theft-isation".

A recently published paper* by Daniel Kaufmann and Paul Siegelbaum, two World Bank economists, is in contrast with this increasingly cynical mood. The article's epigraph neatly encapsulates the authors' contention that it is not privatisation per se, but the failure to privatise swiftly and properly, which breeds corruption.

As the Ukrainian government official cited in the paper puts it: "If you think privatisation is corrupt, try without it."

On the evidence of the experience of 16 former Soviet and central and eastern European countries, the authors argue that corruption pre-dates privatisation. It already existed under communism; but it burst into full flower only in the aftermath of the collapse of the *ancien régime* when the old guard took advantage of the ensuing political chaos to enrich itself through a sort of do-it-yourself takeover of assets, and by lobbying for cheap state credits.

By severing the links between the state and the economy upon which sleaze thrives, Kaufmann and Siegelbaum argue that if it is properly implemented "privatisation has the potential to reduce corruption dramatically in the post-socialist era".

But, of course, the privatisation process itself can be easily corrupted, as many of the disappointed people of the former Soviet Union have observed.

Kaufmann and Siegelbaum evaluate the potential for corruption inherent in different forms of privatisation, both during the sell-off and afterwards.

They give the highest points to voucher-based mass privatisation, the national give-away system used in countries such as Russia and the Czech Republic, and to liquidation, the closure of bankrupt companies and sell-off of their assets, a hard-core technique applied aggressively only by the most committed of free-marketeers, such as by the Estonians.

Both methods are relatively swift and provide little opportunity for bureaucratic meddling, the criteria which the authors believe make for the cleanest transfer from state to the private sector. Voucher privatisation and liquidation also score highest in creating a post-privatisation economy insulated from corruption by limiting purchase conditions such as employment and investment levels, bringing in new proprietors and having scope to swing the balance of the economy from the state to the private sector.

Kaufmann and Siegelbaum make the obvious, but still disheartening, observation that cultural, legal and social habits, the market infrastructure which takes decades to construct, are of cardinal importance. Germany's Treuhandanstalt relied on tenders and trade sales, the method the authors rank as having one of the highest corruption potentials, during its burst of privatisation.

But in the hands of law abiding, well paid civil servants, this perilous method produced the region's cleanest and most complete privatisation.

Chrystia Freeland

* *Privatisation and corruption in transition economies, Daniel Kaufmann and Paul Siegelbaum, Journal of International Affairs, Winter 1996*

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caure, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
R

Amato leaves watchdog role with a snarl

By Robert Graham in Rome

Mr Giuliano Amato, the former Socialist prime minister who has brought much-needed prestige and weight to Italy's anti-trust authority in the past two and a half years, presented his final annual report yesterday with a volley of barbed comments.

Virtually no part of the economy or bureaucracy emerged unscathed as he warned that the country's growth risked being strangled by over-regulation and lack of competition.

From public services and the banking system, to bars, hairdressing and taxis, he complained, business practice was over-burdened with rules and regulations.

"Regulatory reform must not stop at public services, although this area is very important," he said.

"Instead it must embrace all the relevant sectors of the economy in which existing regulations exercise a negative effect on the growth prospects and development of the country."

Mr Amato will step down as head of the authority in the autumn to take up a teaching post at the European University in Florence. But all those who heard his speech yesterday recognised he was not going to bury himself in academia. Rather he will be positioning himself to enter the political fray again after his successful but brief stint as premier from 1992-93.

He refuses to speculate about his political future. But, he said mischievously: "It's not as if I'm going into a convent."

He is leaving the seven-year-old anti-trust body at a moment when, on his own admission, it is still facing a huge uphill task in imposing its authority.

Of the cases he handled, he reckons roughly a third are settled satisfactorily on the lines sought by the authority.

"It is a tough job and without the backing of EU directives, we would have achieved much less," he said. Indeed, often progress in breaking down cartels and enforcing deregulation has only been possible thanks to existing EU directives.

This has been especially the case over telecoms where he has forced a reluctant Stet, the state-controlled telecoms group, to speed the relinquishment of its monopoly position in telephones.

On occasions in the telecoms field he has even gone outside his strict remit, using moral persuasion by writing letters to the government drawing attention to uncompetitive practices.

Yesterday he drew attention yet again to the problems caused by the delay in parliament agreeing a regulatory authority for telecoms, which among other things, was holding up the introduction of cordless phone technology.

"This merely creates confusion among potential new entrants into the market and ends up favouring the public operator."

Yesterday he also criticised legislators for being "largely indifferent" to introducing competition in the electricity sector, monopolised by the state-owned Enel.

Mr Amato also showed no inhibitions about taking a swipe at the press and media owners.

The media was misleading the public too much with promotional advertising of products, he said. Of the 4,600 complaints so far handled by the anti-trust authority, more than 700 related to television and print journalism where the dividing line between advertising and news blurred.

As Mr Amato was warmly applauded yesterday by a packed audience of Italy's great and good, the main question was whether the government could find a replacement of the same stature.

EUROPEAN NEWS DIGEST

Vladivostok's big switch-off

Russia's far eastern port of Vladivostok, suffering from power cuts and fuel shortages, declared a state of emergency yesterday. Officials said the city could be plunged into darkness within days.

Mr Yuri Kopylov, deputy mayor and head of the civic emergency committee, said the city's 500,000 residents were receiving electricity for six hours a day. The water system was working irregularly because of a lack of power for pumps, and many trains and trams could soon grind to a halt.

Vladivostok has struggled since the Soviet Union collapsed as the navy which once dominated its economy has lost its pre-eminence. Workers across the region have not been paid for months and Mr Kopylov said a miners' strike from May 1 had all but immobilised most power plants. *Reuter, Vladivostok*

Italian rail deal drawn up

Management and unions at Italy's loss-making state railways have reached outline agreement on wages and productivity, raising hopes of an end to long-running industrial unrest.

The unions representing the three main national confederations have wrung concessions on wages which compensate for losses in real earnings since 1993 in return for cuts in overtime and greater productivity. However, one of the more radical unions, with a strong following among drivers, is opposing the deal in an attempt to raise its bargaining power.

Eighteen months ago the unions sought average monthly rises of L360,000 ($210). With lower inflation, however, they have now accepted L160,000, paid in two tranches plus a one-off back-payment. The railways are expected to lose L4,589bn this year and are receiving lower government funding. *Robert Graham, Rome*

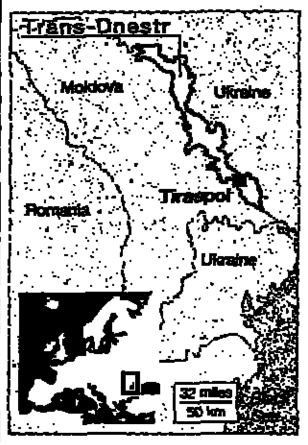
Bulgaria charts new path

Bulgaria's new parliament started work yesterday, with all parties backing a declaration of principles intended to lead the country out of crisis. The deputies passed a seven-point declaration of national consensus drawn up by the Union of Democratic Forces (UDF), which won a big majority in last month's general election.

The new government's stated priorities are carrying out reforms agreed with the International Monetary Fund, making provision for the social cost of reform, fighting organised crime, opening secret police files on public figures, returning land to pre-Communist owners, and membership of the European Union and Nato.

"The declaration will outline the main legislative priorities for the parliament in the first months of its work," said Mr Ivan Kostov, UDF leader. *Reuter, Sofia*

Trans-Dnestr accord signed



Leaders from Moldova and the breakaway Trans-Dnestr region signed an agreement in Moscow yesterday aimed at ending their seven-year-old separatist dispute. The deal, which was guaranteed by the presidents of Russia and Ukraine, is a significant step in ending a territorial conflict which has claimed hundreds of lives and impoverished the north-eastern corner of Moldova. Yesterday's agreement did not specify what constitutional status would eventually be granted to the ethnically Slavic area, but it included a pledge that it would remain a part of Moldova, most of whose people speak Romanian.

President Boris Yeltsin said Russia was ready to withdraw its troops in the breakaway region "at any time." But withdrawal would require the agreement of the separatist authorities. *Chrystia Freeland, Moscow*

Greeks move on road carnage

A new highway patrol is to police Greece's main roads after a record number of people were killed in accidents during a holiday exodus last week. Truck traffic may also be banned at weekends.

Mr Giorgos Romaios, public order minister, yesterday announced the formation of the new highway patrol after 67 people died and 749 were injured in 475 traffic accidents during the Orthodox Easter holiday. This was double last year's record of 33 deaths.

Hundreds of thousands of Greeks poured out of the cities into the countryside two weeks ago in what for many people was an 11-day holiday, having stretched the Easter break to include Labour Day.

Greece has the highest traffic death rate in Europe, according to the transport ministry. *AP, Athens*

Court win for shareholders

Outside investors have won a preliminary victory in a dispute over shareholders' rights with the Novolipetsk Metal Combine, an important Russian metals plant. The important test case centres on shareholders' demands to be represented on the board of directors and to be given fuller financial information.

The Lipetsk regional arbitration court ruled on Tuesday that one of the disgruntled shareholders, the International Financial Company, a Moscow bank affiliated with one of the country's most powerful financial groups, had been unfairly deprived of voting rights.

Two western investors, the Sputnik fund run by Renaissance Capital, a Moscow-based investment bank, and Cambridge Capital Management, a Monaco-based hedge fund, have also filed suit. *Chrystia Freeland*

ECONOMIC WATCH

Prices up 0.9% in Greece

Greek consumer prices rose by 0.9 per cent in April from the previous month and 5.9 per cent year-on-year, the national statistics service reported. In March, the figure was at 6 per cent year-on-year. The government is aiming for an inflation rate of 4.5 per cent by the end of 1997, and the governor of the Bank of Greece, Mr Lucas Papadimos, thinks it could fall to 3 per cent next year. *AFX, Athens*

■ Italy's retail sales index rose by 1.6 per cent in January compared with the same month last year, Istat, the national statistics bureau, reported. There was a 1 per cent year-on-year fall in December.

■ Real net wages in Hungary's private sector rose 5.8 per cent during the first quarter from the same period a year earlier, the central statistics office announced.

I was ready to declare independence, reveals former Quebec premier

BQ separatists suffer poll blow

By Bernard Simon in Toronto

Quebec separatists were scrambling yesterday to recover from a body blow delivered by their former leader, Mr Jacques Parizeau, ahead of Canada's general election on June 2.

Mr Parizeau, who was premier of the French-speaking province from 1994 to early 1996, stunned and embarrassed his former colleagues by revealing that he had planned a quick, unilateral declaration of independence had the secessionist forces won the October 1995 referendum on Quebec's future.

In the event, the pro-Canada side came out ahead with a razor-thin majority of 50,000 votes.

Mr Parizeau's disclosure came on the heels of a series of campaign setbacks for the Bloc Québécois, which represents the separatist cause in the federal House of Commons in Ottawa.

The BQ replaced its campaign director and other senior officials last weekend after a week of embarrassments. Its campaign bus got lost, and the party's leader, Mr Gilles Duceppe, arrived at a veterinary college to be greeted only by horses and cows, because the students were on holiday.

Mr Parizeau's revelations appear timed to do maximum damage to the separatist movement's present leaders, who elbowed him aside in the referendum campaign and encouraged his resignation as premier last year. The movement is split between hardliners such as Mr Parizeau, and a more pragmatic wing, led by Mr Lucien Bouchard, Quebec's present premier, which has emphasised economic renewal and "partnership" with the rest of Canada.

The BQ won 54 out of 75 Quebec seats in the 1993 election, making it the largest party on the opposition benches. A repeat performance on June 2 would provide a strong launching pad for another independence referendum which Mr Bouchard, aims to hold in 1998 or 1999.

The BQ's pro-Canada opponents have redoubled their campaign efforts in Quebec, hoping to capitalise on the Bloc's setbacks. Recent opinion polls show both the ruling Liberals and the Progressive Conservatives gaining at the Bloc's expense.

The Tories, virtually wiped out in 1993, see the Bloc's troubles as a golden opportunity.

Their leader, Mr Jean Charest, is far more popular in Quebec than Liberal leader and prime minister, Mr Jean Chrétien.

Mr Parizeau said in his book to be published next week that his unilateral independence plan was based on advice from Mr Valéry Giscard d'Estaing, France's former president. The UDI strategy was designed to secure quick recognition from France, followed by the US.

Observer, Page 13

Canadian premier Jean Chrétien in Edmonton yesterday AP

Republican donation admission

By Gerard Baker in Washington

The US Republican party was forced yesterday to acknowledge it, as well as the Democrats, had received a political donation from an illegal foreign source.

Mr Jim Nicholson, the party's national committee chairman, said the committee had returned $102,400 to Young Brothers Development, a Florida subsidiary of a Hong Kong company. Foreign companies are forbidden from contributing funds to political parties, unless they have a substantial presence in the US.

Mr Nicholson said the party's lawyers had ascertained on Wednesday that Young Brothers did not have significant US operations and that therefore the money had come essentially from abroad. "Upon learning those facts, we immediately returned the contributions," Mr Nicholson said.

The news is a severe embarrassment to the Republicans, who have made substantial political capital out of alleged improprieties in the Democrats' fund-raising activities.

Trade tops Clinton summit agenda with central America

By Johanna Tuckman in Guatemala City

Trade relations were at the top of the agenda yesterday in the second leg of US president Bill Clinton's first trip to Latin America.

Fresh from his successful calming of Mexican sensibilities over perceived US arrogance, President Clinton yesterday met central American leaders in Costa Rica.

The presidents of Nicaragua, Guatemala, Honduras and El Salvador travelled to the meeting along with the Belizean premier and the president of the Dominican Republic.

The US accounts for about 40 per cent of all central American trade. The region also represents an important trading partner for the US, similar in scale to Chile, the most likely next partner in Nafta - the North American Free Trade Association.

The joint declaration due to be signed yesterday was expected to reflect the importance of trade with the US, in the context of the target date fixed at the 1994 Latin American summit for a continental free trade zone in 2005.

"Central America is ready for reciprocal talks," said Mr Eduardo Stein, Guatemalan foreign minister. Trade negotiations with the US have traditionally focused on unilaterally granted privileged access to US markets. Earlier in the week central American leaders were at pains to dampen expectations that the summit would produce concrete commitments to starting free trade negotiations.

US officials said before the summit that its main result was likely to be the signing of an open-skies agreement to liberalise air travel. Commitments to improving co-ordination in anti-drug trafficking operations were also seen as likely.

Central America's geographical position makes it an ideal warehouse and bridge for drugs produced in the south on their way to the seemingly insatiable US market. The most controversial issue on the agenda was the strict new immigration rules affecting an estimated 900,000 central Americans living illegally in the US. The return of hundreds of thousands of migrants would not only swell the ranks of the unemployed, it would also remove one of the region's most important sources of hard currency income.

The Salvadoran case is the most dramatic. An estimated 20 per cent of the total Salvadoran economically active population live in the US. Money sent home by these expatriates was estimated at $1bn in 1996, the country's biggest foreign earner.

All of the regional leaders at the summit have called for flexible implementation of the new legislation that officially went into effect on April 1 but has yet to result in major increases in deportations.

IMF stamp of approval for Venezuela

When Venezuela swallowed the bitter medicine prescribed by the International Monetary Fund in April last year to remedy its economic problems, few observers thought it would be back for more treatment.

This week, the government confirmed it had agreed in principle with the IMF to extend its stand-by agreement through the end of its term in December 1998. While investors find that reassuring, they do not believe it signals a heightened pace of reform.

With record monetary reserves and improved credibility on international capital markets, Venezuela does not need funds from the IMF and has not drawn $900m from its current stand-by loan. With only 18 months left in office, the government opted out of the IMF's more exacting extended fund facility.

The agreement is a slap on the back for the administration of President Rafael Caldera, who at the outset of his term pledged he "would not get down on my knees before the IMF" but did give in.

Mrs Joyce Chang, emerging markets debt strategist with Merrill Lynch in New York said "it's a stamp of approval" for the government's economic policies.

A series of market-oriented reforms last year brought down inflation to an average 2-3 per cent a month, at the cost of growth – a negative 1.8 per cent last year, expected by the IMF to become a positive 4 per cent this year.

Reforms also attracted billions of dollars of foreign investment, which has stabilised the currency and is beginning to kick-start the economy.

Mr Luis Matos Azócar, finance minister, says that during the remainder of its term the government will focus on structural reforms, especially privatisation and streamlining of the public sector, so as to lock in place achievements of the past year.

After concluding pending social security reform, including introduction of a private/public pension fund scheme, the government wants to tackle corruption and inefficiency in education, justice, and tax collection.

"We are implementing these measures because they are good for the country, not because they are imposed on us," says Mr Matos. Yet with no immediate pay-off or enforcement mechanism of the IMF, goodwill may not go very far, especially as the 1998 election year approaches.

As Mr Matos admits, reform will continue only as fast as the minority government's limited possibilities allow.

Details of the agreement, which would go into effect in July, are still being worked out. Yet some analysts say it will be a less aggressive reform agenda than last year, which saw draconian price and tax increases.

Government officials have hinted in recent months that the time has come for renewed petrol price and utility rate adjustments. After a six-fold rise in April last year, petroleum prices currently average 60 bolivars ($0.12) per litre or 80 per cent of its export price, still cheaper than a bottle of mineral water in Caracas. According to ING Baring, electricity rates will have to increase by 71 per cent this year.

Raymond Colitt

Venezuela

Macro-economic targets for end 1998

GDP growth	above 5%
Inflation	14%
Budget balance	0

Warhol soup can makes $3.5m

By Antony Thorncroft

An Andy Warhol painting of a Campbells soup can, one of the series which in 1962 established his reputation as a pop artist, sold for $3.5m. at Christie's in New York on Wednesday night.

It was the highest price paid at auction for a Warhol soup can, and was the top lot in a successful sale of contemporary art which totalled $23.3m, with 53 of the 64 lots finding new owners.

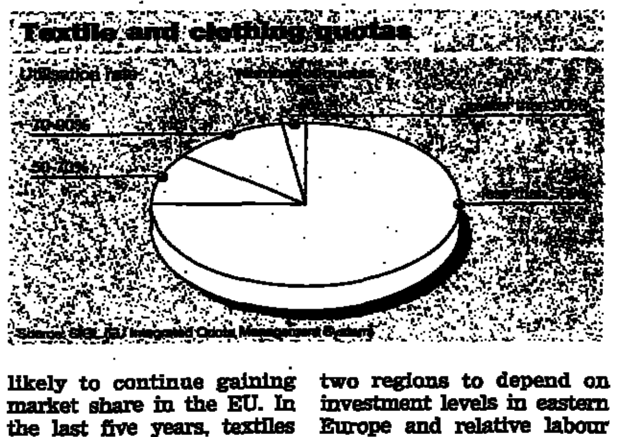
One of the most important lots, De Kooning's "Amityville", which had been estimated at up to $3m, failed to sell, but pop art was in demand, with Roy Lichtenstein's comic strip "BLANG" fetching $2.86m (slightly below forecast), and "Target" by Jasper Johns selling for $937,500.

"Untitled", a typical layer painting of 1953 by Mark Rothko, sold for $1.98m.

NEWS: WORLD TRADE

EU may scrap redundant clothing and fabric quotas

By Jenny Luesby in London



The European Union may abolish quotas on east European clothing and fabric imports after a report which shows they are redundant.

Thousands of man-hours are spent monitoring and enforcing the 89 remaining quotas, but in only two cases does the volume of imports come close to permitted levels.

For more than three-quarters of the quotas, actual import levels represent less than half of the EU's limits.

Yet, for so long as the quotas exist, every transaction affected by them requires both an export licence and an import licence.

EU industry ministers are now considering phasing out the quotas, and the red tape that goes with them, by next year.

In a special study for the Council, OETH, a European Commission-funded research body, has concluded that the effects on the EU's textiles and clothing industry of such a complete liberalisation would be "limited".

East European imports are likely to continue gaining market share in the EU. In the last five years, textiles and clothing imports from eastern Europe have risen threefold. But growth is unlikely to be accelerated by the ending of quotas, says OETH.

Possibly as a result of this loosening, the restrictions have not acted as a curb on trade at any point since 1993.

"This suggests EU imports from central and eastern Europe have been restrained by lack of capacity or competitiveness," rather than quotas, says OETH. It expects the future rate of trade growth between the two regions to depend on investment levels in eastern Europe and relative labour costs.

For the last decade, the availability of cheap labour has been the main reason for the growth in imports from the area. Last year, hourly labour costs in eastern Europe's clothing industry were less than $2 an hour. By comparison, northern European rates averaged $20 an hour, while in southern Europe they were under $10.

With labour typically accounting for 30 per cent of the manufacturing costs of clothing, many European producers have taken advantage of the cheaper labour rates in eastern Europe to improve their profitability.

It has become common to send fabrics, accessories and even partly made garments to the east, and then re-import them as made-up clothes.

In Germany, by 1995, 71.8 per cent of textiles exports to eastern Europe were part of this flow of outwards processing. So, too, were 85.7 per cent of the country's clothing imports.

However, while many European manufacturers would appreciate a reduction in paperwork as they move products from site to site to save costs, some industry opposition is still expected to an ending of the quotas.

Unlike other EU members, Portugal barely takes part in outward processing, and still has labour rates that are competitive with eastern Europe. In clothing, the average hourly rate in Portugal last year was $3.85 – the next lowest within the EU being Greece at $7.18 an hour. The clothing industry remains vital to its economy.


Picking roses in Bulgaria. Flower workers are exposed to dangerous chemicals, say unions

Unions call for code to protect flower workers

By Andrew Bolger, Employment Correspondent

Consumers in the developed world are buying an increasing number of flowers from the Third World produced by workers who are exposed to dangerous chemicals and unsafe working conditions, according to the International Confederation of Free Trade Unions.

A report by the Brussels-based ICFTU, which represents 124m workers worldwide, said the use of toxic chemicals in flower production had caused pregnant women to miscarry or give birth prematurely after working in flower greenhouses in Colombia and Uganda. It also cited cases of child labour.

Colombian women said they vomited after being forced to work close to chemical spraying, and a Ugandan woman was blinded after she entered greenhouses to cut flowers immediately after spraying.

ICFTU said: "It will come as an unpleasant surprise to consumers to discover that the flowers they buy as gifts are simply another aspect of the global agribusiness, and that a day's wages for a woman in Uganda equals the retail price of just one of the roses which she grows."

Mr John Monks, general secretary of Britain's Trades Union Congress, said: "It is time that consumers are protected from buying flowers from multinational companies that deny basic rights to their workers. The need for an industry code that will protect workers in the developing world has never been more pressing."

The report said the proportion of flowers sold in the US, European Union and Japan from the Third World had risen from virtually zero in the late 1960s to about 25 per cent by 1992.

Europeans buy $14bn worth of flowers a year, with 21 per cent of imports of cut flowers coming from developing countries. Germany is the largest consumer, followed by the UK, France and the Netherlands. The most popular imported flowers are roses, chrysanthemums and carnations.

Unions are campaigning for companies in the global flower industry to respect core conventions of the International Labour Organisation on the freedom of association and the right to bargain collectively, and to adopt production methods which do not damage workers' health and safety.

Growing environmental awareness among consumer bodies has prompted the flower business to promote various forms of "eco-labelling", such as the German BGI scheme. But the report said: "Some of these labels, such as the BGI, are private systems, which do not comply with minimum ILO standards, only covering certain safety conditions, since they consider the freedom to organise and the right to collective bargaining are unattainable norms in countries like Colombia."

The report said conditions were not much better for workers in Europe. "The use of clandestine – and therefore vulnerable – labour is widespread in Dutch horticulture, and the industry had been criticised for its high use of pesticides."

Vietnam passes new law on trade

By Jeremy Grant in Hanoi

Vietnam's parliament has passed a domestic trade law to help prepare the country for membership of the World Trade Organisation (WTO).

The move comes amid concern that Hanoi has slipped on a timetable to cut tariffs as a member of the Asean Free Trade Area (AFTA). A provision in the new law giving preference to Vietnamese bidders on infrastructure projects has also caused alarm, with one diplomat saying it "seemed to go against the idea of WTO".

The law, to take effect on January 1, was passed by the National Assembly at the insistence of reformist premier Vo Van Kiet, who feared it might have been delayed by a year by the assembly's busy agenda.

The speed with which it was passed – and the fact that delegates were clearly confused by some of its provisions – led some observers to suggest that its passage aimed to send a signal that the country is moving ahead on trade reform, even though many observers doubt that this is the case.

The official daily, Vietnam News, said that some assembly members found a section dealing with leasing "too difficult and strange for them to deal with". Vietnam's economic reforms are a decade old and the communist-run country is still having trouble getting used to western free market principles.

Last month, Hanoi agreed to sign a landmark copyright protection agreement with the US only after being threatened with "Special 301" sanctions. Diplomats say Vietnam may have relaxed its attitude on meeting AFTA requirements because it will not be under such pressure to stick to a timetable for tariff cuts once Cambodia, Laos and Burma join the Association of South-East Asian Nations later this year.

Feature, Page 19

High-speed London to Hungary link to open next year

Rail freight heads for freeway

By Charles Batchelor, Transport Correspondent

A high-speed freight rail link between the UK and Hungary, with onward connections to Ireland in the west and to Russia, Ukraine, Greece and Turkey in the east, is set to become one of the first of the trans-European freight freeways.

A group of 25 train operators, wagon suppliers, freight forwarders and railway administrations promoting the improved rail link, has applied to the European Commission for Ecu40,000 ($45,200) to study the market potential in central and eastern Europe.

The promoters plan to open the link before the end of 1998 with as many features of the European Commission's freight freeway programme as possible. These include faster trains, more streamlined border controls, more rapid responses to customer inquiries and more flexible train timetables.

The unique aspect of the UK-Hungary route is the involvement of freight operating companies in the 25-strong working group, said Lord Berkeley, chairman of the Rail Freight Group, representing UK freight operators, which is co-ordinating the project. These include Freight Europe (UK), the British freight arm of French Railways; English Welsh & Scottish Railway and Freightliner, two UK freight operators; the Swiss Intercontainer-Interfrigo group; and Cargowaggon of Germany.

Other members include the national railway organisations of Germany, Hungary, Austria, Switzerland, Sweden and France. Railtrack, the UK rail infrastructure company is also involved.

The route would run from London to Sopron, site of a large rail freight terminal in Hungary near the Austrian border. The working group has yet to decide whether it would run through Germany, where track charges are high, or through Switzerland.

It would provide a regular service, starting possibly with three trains a week but rising to one a day as volumes build up. It would be operated by trains capable of speeds of up to 100kph divided equally between flatbed trucks carrying containers and conventional rail wagons.

The purpose of the market study is to see whether there would be enough traffic for the onward feeder routes to generate enough business for the main line.

NEWS: INTERNATIONAL

Angola draws closer to Zaire conflict

By Our Foreign Staff

Fears grew yesterday that Angola is being drawn into Zaire's civil war.

Angolan government forces continued their build-up on the border with Zaire, where they have been conducting exercises with Mr Laurent Kabila's rebels.

Mr Jonas Savimbi, leader of Angola's Unita movement, was reported to have sent troops in support of Zairean President Mobutu Sese Seko, his most important ally during Angola's civil war. His intervention is likely to strain the fragile peace agreement between Unita and Angola's ruling MPLA party.

Heavy fighting was reported in Kenge, 190km east of Kinshasa, and aid agencies said hundreds had been killed, including 200 civilians.

Spokesmen for President Mobutu Sese Seko, in Gabon for talks with Mr Omar Bongo, the country's president, and the leaders of Chad, Congo, the Central African Republic and Equatorial Guinea, continued to deny speculation that Zaire's embattled leader planned to go into exile.

Meanwhile, US and South African mediators yesterday continued to hold out hopes for a peace summit. In Dar es Salaam, Mr Thabo Mbeki, South Africa's deputy president, said a new meeting between Mr Mobutu and Mr Kabila was scheduled for Wednesday.

After talks in Paris with French officials, Mr Bill Richardson, Washington's special envoy, said: "I think the probability is high for a second meeting and I'm also encouraged that this second meeting will produce a result that does not involve a violent end, and that includes also an inclusive transitional government."

He told a news conference he expected Mr Mobutu to return to Kinshasa after the Gabon summit.

He denied widespread reports of a power struggle between the US and France over Zaire, saying they were working closely together, and insisted the fact that neither President Jacques Chirac nor Mr Hervé de Charette, the foreign minister, had made themselves available to meet him was not a snub.

Instead, the envoy met senior presidency and foreign ministry officials, emphasising that Washington wanted Paris to be "partners in leadership" in Africa.

"If there's a peaceful, inclusive transitional government, I think Zaire will be able to attract international support. If the transfer is violent, I believe Zaire will have difficulty attracting the international support that it needs to rebuild itself," he said.

In eastern Zaire, United Nations officials were organising an airlift of ill and exhausted Rwandan refugees from squalid camps south of Kisangani. It was a race against time, they said, as more than 60 refugees were dying there each day.

The UN refugee agency hopes to airlift up to 80,000 Rwandan refugees, remnants of a Hutu exodus two years ago amid fears of reprisals at home following Hutu-led massacres of 500,000 Tutsis.


Hutu refugees arriving in Kigali, Rwanda, yesterday from camps in Zaire AP

Ross runs into Mideast brick wall

By Judy Dempsey in Jerusalem

Mr Dennis Ross, the US Middle East envoy, yesterday held separate talks with Mr Benjamin Netanyahu, the Israeli prime minister, and Mr Yassir Arafat, president of the Palestinian Authority, amid growing gloom over the future of the peace process.

Mr Ross admitted there were difficult problems to be overcome.

The Israeli government is insisting the Palestinians do more to fight terrorism before full negotiations are resumed.

The Palestinians insist Israel must first stop new Jewish settlements. In particular, they want all work halted on a new settlement at Har Homa, or Jabal Abu Ghneim in Arabic, in east Jerusalem.

"It is a basic condition and it is not possible to speak of resuming the peace process without halting settlement in Jabal Abu Ghneim," said Mr Ahmed Abdel-Rahman, secretary general of the Palestinian Authority.

Israel shows no sign of compromise, despite the fact that Jerusalem's future was supposed to be left until the final status talks. Mr David Bar-Ilan, Mr Netanyahu's media adviser, said: "We are obviously not going to stop building in the settlement any more than the Palestinians are going to stop building in their towns."

As if to confirm this determination, Jewish settlers yesterday occupied a newly acquired house in Arab East Jerusalem, insisting they had a right to live in all the city, Mr Ahmed Tibi, an aide to Mr Arafat, said it was "an attempt to Judaise Arab East Jerusalem." Diplomats said it was changing facts on the ground before the final status talks.

However, there appeared to be progress on resuming security co-operation, suspended after Israel started work at Har Homa seven weeks ago. The Palestinians want the US to be present in these negotiations which reflects how little confidence exists between both sides.

"It is not bilateral co-ordination, it is trilateral, with co-ordination of the United States," said Mr Arafat – which shows the extent of Washington's growing involvement in salvaging the peace process. Mr Ami Ayalon, head of Israel's security services, and Mr Mohammed Dahlan, the Palestinian intelligence chief, were scheduled to meet.

But given the wide gap between both sides, analysts said it was difficult to see what Mr Ross could do in finding compromises sufficient to bring both sides back to the table without either side losing face.

Mr Arafat, enjoying popular support for his tough stance on Har Homa, would find it difficult to accept it, although the US may try to speed the opening of Gaza International Airport, and other outstanding issues from the Oslo accords which have not been implemented.

Western diplomats recognise that Mr Netanyahu shows no sign of compromising on Har Homa. "He is not only beholden increasingly to the nationalists in his party. He is just too principled to be flexible on Oslo," a senior diplomat said.


Ross: difficult problems

Aids epidemic warning for South Africa

Unexpected sharp rise in incidence of HIV infection carries dangers for employers

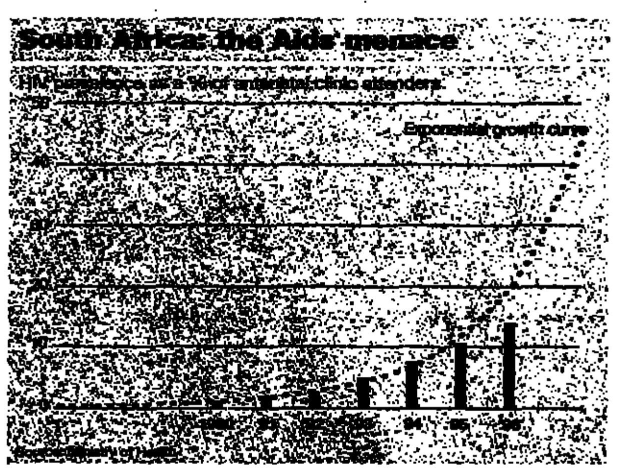
A sudden rise in the numbers carrying the Aids virus in South Africa has raised fears of an uncontrollable HIV epidemic.

Mrs Nkosazana Zuma, the minister of health, warned that the consequences "will be too ghastly to contemplate", and is planning a national conference next month to review policy.

One aim of the conference will be to raise awareness of the impending crisis among companies and unions.

Mrs Zuma's comments were provoked by a survey of 15,000 women attending ante-natal clinics which showed a 34.8 per cent increase in those testing positive for HIV. The infection rate among this group was just over 14 per cent, compared with 10.4 per cent the previous year. The increase was worst in North West province where those testing positive rose from 8.3 per cent to more than 25 per cent. This is partly explained by its proximity to Botswana where infection rates in Francistown and Gaberone are 40 per cent and 29 per cent respectively.

Based on these figures, the survey estimates that 2.4m South Africans are infected with HIV, including 1.4m women. The worst affected is KwaZulu-Natal with 750,000 carrying the virus, followed by the industrial heartland of Gauteng, including Johannesburg and Pretoria, with 466,000 cases.



Miss Janina Slawski, an actuary with Southern Life's Aids management consultancy, believes the epidemic will eventually lead to 25 per cent of the workforce becoming infected. She estimates this will lop 1 per cent a year off economic growth, and lead to higher industrial costs because of the loss of skilled labour and the need to spend more on training programmes. An average company could expect productivity to fall by about 5 per cent. "These factors, plus the changes in resource allocation, also have worrying implications for South Africa's global competitiveness," she says.

But Miss Slawski points out that the disease has to be examined on a community basis where different levels of prevalence will be experienced. This can be especially important to companies seeking to assess the likely costs of the disease.

Dr Anthony Kinghorn, a director of HIV Management Services, a new consultancy set up to assist companies plan for and counter the impact of HIV/Aids, says a range of costs are involved from medical, insurance and pension funds, to the less direct such as poor work performance, absenteeism, and compassionate leave.

"Workforces in South Africa can be at greater risk than the general population because of the prevalence of migrant workers and the high incidence of disjointed family life," he says. "This leads to the use of sex workers, and higher alcohol consumption particularly among the better paid skilled workers. The upwardly mobile are not at less risk, and in turn this has implications for training costs."

Among those most aware of the increasing rate of infection are mining companies, particularly in the gold sector where improved productivity is critical to the survival of marginal mines. A study by HIV Management Services of one mining company showed the rate of HIV infection likely to reach a plateau of about 35 per cent of its workforce. How rapidly the incidence of HIV will lead to sharply higher sickness and death levels is not yet clear, but Dr Kinghorn believes the impact will be strongly felt by 2005, with the heaviest costs for industry between 2015 and 2020.

Although this will vary from one company to another, Dr Kinghorn says there is no escape from the consequences. "Some companies may feel that with such a large pool of unemployed they can largely avoid the problems. But there is not a large pool of skilled and semi-skilled. There is no reserve of skills, so all companies will be affected."

HIV Management Services is also being asked by companies to assess the impact of the disease on markets for their products, where changes in predicted demand affect investment plans. "This is particularly important for products in the mass consumer market and for those targeted at the age groups most at risk," says Dr Kinghorn. "Banks making housing loans, for example, want better information on the incidence of clients likely to default." Miss Slawski says luxury goods manufacturers could also be seriously affected as consumers are forced to spend an increasing amount of their income on health care and support services.

Roger Matthews

US set to face worst in Korea

By Bruce Clark in Washington

As US analysts struggle to interpret the signals from North Korea's diehard communist regime, they are preparing for the worst – and asking what the "best" outcome, peaceful reunification, would really mean.

Officially, US policy towards the Koreas has been absolutely consistent in recent years: a twin-track policy of readiness to defend South Korea from aggression, and attempting to coax the North out of its rigid isolation.

"We are attempting to draw North Korea into a more co-operative relationship and encourage them to modify their behaviour," said a State Department official who was asked to sum up US attitudes towards the communist regime.

It is in this spirit that the US has pledged to send Pyongyang about $25m worth of famine relief – while continuing to censure the North for its vast defence spending, and an intensifying programme of military exercises.

In recent days, Pyongyang has continued to give a puzzling combination of messages to the western world. It has abruptly called off talks that were intended to address US worries about its ballistic missile programme.

These talks have acquired added significance because the Tokyo press has reported that North Korea is preparing to deploy a long-range Rodong missile which could hit Japanese territory.

But as the world's last outpost of Stalinism struggles to cope with a mounting food crisis, there is growing school of thought in Washington which regards a "hard landing" – implosion or even a desperate attack on the south – as a more likely outcome than a happy ending on German lines.

"There has been a tangible shift in attitudes over the last few months," said Mr Nicholas Eberstadt, a Korea specialist at the American Enterprise Institute. "The new Clinton administration is much more pessimistic about the chances of North Korea pulling out of the present crisis or achieving a soft landing."

Mr William Cohen, the new US defence secretary, said after a recent visit to South Korea that a northern attack on the south would be suicidal – but it could not be ruled out because nobody could be sure Pyongyang would behave rationally.

Hypothetical as it might seem, US analysts are also beginning to ask themselves what the strategic implications would be of Korean reunification. All agree that the status of a unified Korea would immediately become a highly sensitive issue, and a potential source of conflict in US-Chinese relations.

Officially, the US has pledged to maintain troops in a united Korea as a stabilising force in the region. But an analyst at a Pentagon-related think tank said he doubted whether it would be possible to convince American tax-payers that the expense of maintaining a huge garrison in Korea was justified.

"I doubt if it would be possible to keep US troops there because of Korean nationalism, US parsimony – and Chinese objections," he said.

Taiwanese fury over crime spiral

Laura Tyson on a wave of protest at the perceived 'weakness' of government

The resignation yesterday of Taiwan's "Mr Anti-corruption" and two other ministers caps a sorry week for President Lee Teng-hui.

Mr Ma Ying-jeou, a former justice minister and currently minister without portfolio who is also one of the most popular members of the government, resigned "deeply ashamed" at government impotence in the face of a soaring rise in crime.

Mr Lin Feng-cheng, the interior minister, and Mr Chiu Mao-ying, the chairman of the council of agriculture, also stepped down.

Mr Lee's week started with the cancellation of his much-loved round of golf at the weekend to deal with a march by 50,000 protesters angry at rising crime and demanding a cabinet reshuffle and this was followed by an offer by Mr Lien Chan, the prime minister, to resign. Mr Lee refused it.

The embattled President Lee said yesterday he would unveil a mini-reshuffle next Wednesday before a more comprehensive ministerial overhaul in several months. The unpopular Mr Lien is unlikely to survive a second time.

A mini reshuffle may not be enough to appease public outrage, provoked by the recent murder of the daughter of a popular Taiwanese celebrity. What began as a mass outpouring of grief over the latest in a long line of nasty killings has become a political crusade to unseat the disliked premier, who Mr Lee has groomed to succeed him.

The president will need all his political skills to out-manoeuvre the biggest challenge to his presidency since he became Taiwan's first democratically elected leader in March 1996.

A public opinion survey published on Tuesday showed 48 per cent of those asked thought Mr Lien, who is also vice-president, should step down to take responsibility for a spate of unsolved high-profile slayings that have shocked the nation. Seventy-five per cent said security problems were extremely bad or getting worse.

Happier times: President Lee (right) with Lien Chan, his prime minister AP

"We are very angry," said a young woman holding her daughter at Sunday's demonstration which attracted participants from across the political spectrum and large number of university students. "We are disappointed with this incompetent government."

Her husband added: "If the upper beam is crooked, the lower beam will go askew. President Lee should step down too."

In a recent poll, Mr Lee's popularity rating plummeted to an all-time low of 48 per cent from a high of 89 per cent just over a year ago. The premier's rating fell to 24 per cent.

The deteriorating public security situation has provoked soul-searching about the trade-offs of democracy a decade after the lifting of martial law – and widespread resentment that much of the national police forces are deployed on VIP duty instead of protecting ordinary citizens.

Although Taiwan's crime rate is low compared with many countries, it is rising and violent crime – apart from crimes of passion – is a relatively new and disturbing phenomenon. The number of guns in Taiwan has risen sharply in the 10 years since martial law was lifted and democratic reforms began. Parole requirements for convicted criminals have been eased, appearing to exacerbate the problem.

There were 149 kidnapping cases last year, but none attracted the attention that Ms Pai Hsiao-yan's case did. The only daughter of a television actress who has close ties to leading political figures was abducted on her way to school in mid-April. Her kidnappers, who had long criminal records, cut off her little finger and sent it to her mother demanding a US$5m ransom. The girl was raped and severely beaten before being strangled to death and thrown naked and bound into a drainage ditch.

The killers appear to have escaped an island-wide dragnet and fled to China.

In one of the country's largest civil protests, demonstrators marched to the presidential palace, where they were greeted by barbed-wire barricades and a 6,000-strong police force, many in riot gear.

Demonstrators, many carrying long-stemmed yellow chrysanthemums to commemorate the dead girl, also complained about government handling of a recent pig plague sweeping across the island, lack of preparation for last year's devastating Typhoon Herb, and ruling party links with big business and organised crime.

"You don't want to bring up children in this society any more," said a middle-aged woman. "If you have a daughter, you fear she will be raped or sold into prostitution. If you have a son, you fear he will die during military service or grow up to be a criminal."

Another protester said: "All the rich people send their kids overseas to school, and those government officials have police guards to take their kids to and from school every day."

A houswife added: "Democracy means that good people should be protected, but in this society democracy means bad people are protected and the good people have to protect themselves. I don't mind giving up a little bit of democracy to feel safe."

ASIA-PACIFIC NEWS DIGEST

Sonia Gandhi to join party

Mrs Sonia Gandhi, the Italian-born widow of former Indian prime minister Rajiv Gandhi, has decided to join his Congress party after refusing membership for years, members of parliament said yesterday. Congress gives parliamentary support to India's ruling 13-party United Front coalition government, in order to keep opposition right-wing Hindus from power.

As standard-bearer of the Gandhi-Nehru dynasty, Mrs Gandhi has influence within Congress, whose leaders regularly seek her support in the party's periodic factional battles. Congress was led by the Nehru-Gandhi family for decades until its presidency was taken by the then prime minister, Mr P.V. Narasima Rao, after Rajiv Gandhi's 1991 assassination. She distanced herself from Congress when it suffered a series of defeats under Rao in 1994, and its virtual rout in general elections two years later. *Reuter, New Delhi*

Thais head for fiscal deficit

In spite of making an emergency budget cut of 6 per cent earlier this year, Thailand is heading for its first fiscal deficit in more than a decade because slowing economic growth has cut revenues, finance ministry officials said yesterday. The deficit, projected to be up to Bt20bn ($766m), is likely to grow substantially in 1998, private sector economists added. In the first half of fiscal 1997 (October to March), Thailand ran a budget deficit of Bt53.75bn.

Mr Amnuay Viravan, the finance minister, said no further spending cuts were planned for this year. Mr Amnuay had to engage in a bruising political fight to push through $2.36bn in cuts earlier this year and is seen as lacking the political strength to slash government spending further. *Ted Bardacke, Bangkok*

Canberra sees faster growth

Economic growth in Australia should pick up this calendar year without threatening inflation targets, the country's central bank, said yesterday. The Reserve Bank of Australia's optimistic forecast came in its inaugural "semi-annual statement on monetary policy" – a bulletin which will be issued every six months under an accord with the new conservative federal government.

Mr Ian MacFarlane, Reserve Bank governor, told a parliamentary committee yesterday: "We see something like 4 per cent (growth) through 1997, rather than 3 per cent in the previous year." The latest data put the Australian economic growth at 3.1 per cent in calendar 1996, but annualised growth by the year's end had slowed significantly. *Nikki Tait, Sydney*

Curb on rising costs sought

Japanese to pay more for health care

By William Dawkins in Tokyo

The cost of medical treatment for the millions of Japanese who belong to the national health insurance system is to double from September, under an unpopular package of health care reforms adopted yesterday by parliament.

The scheme, pushed through the lower house by the Liberal Democratic party government against resistance from three opposition parties, aims to curb rising costs of the state health insurance system, as the proportion of the population over 65 rises from about 14 per cent now to 20 per cent by 2010. Japan has the fastest ageing demographic profile in the industrialised world.

The plan will provide a second drag on consumer spending after last month's rise in sales tax and suggests Japan's fiscal tightening will continue for some years.

National health insurance premiums are to rise from 8.2 per cent to 8.5 per cent of salary. On top of this, workers with national health insurance policies will have to pay for 20 per cent of hospital treatment, up from 10 per cent now. Outpatients will for the first time have to pay for prescriptions, on a rising scale geared to the number of medicines they take, an attempt to curb what health ministry officials think is an excessive consumption of medicines.

The changes will raise an estimated Y2,000bn ($16bn) for government coffers, equivalent to 0.4 per cent of gross domestic product, or a quarter of government health spending of Y8,000bn in the year to last March. Total health spending, including spending by individuals and companies as well as by the state health scheme, is forecast by the health ministry to rise from Y27,000bn last year to Y141,000bn by 2025.

Yesterday's forced vote marks a rise in the political confidence of the minority LDP government as it breaks with the convention seeking a consensus on controversial legislation. The LDP relied on the support of its two coalition partners, the Social Democratic party and New Harbinger party, plus two smaller groups to obtain the required majority.

Their backing makes it very likely that the health insurance bill will get through the upper house before parliament closes for the summer on June 18.

■ The Keidanren, Japan's powerful economic federation, has thrown its support behind foreign ministry efforts to make more efficient use of the country's foreign aid budget, which at $9.6bn last year is among the world's largest. It has prepared a proposal to place foreign aid planning under a single ministry, plus an aid disbursement agency, in place of the 19 overlapping ministries and agencies which now administer the foreign assistance budget.

The Keidanren paper is being considered by the foreign ministry as part of a government review, designed to shift from "quantity to quality," in the disbursement of aid, according to Mr Yukihiko Ikeda, foreign minister. A ministry advisory council on official development assistance (ODA) is to make a proposal for reorganising the aid system next month.

The review comes as Japan's aid spending is succumbing to budget pressure, part of wider reform of central government spending launched last year by Mr Ryutaro Hashimoto, the prime minister. Growth in the ODA budget was kept down to 2.1 per cent for the current fiscal year.

17% climb 'threatens 8.5m jobs'

Stem rise in pound, pleads British Steel

By Peter Marsh and Simon Kuper

British Steel, Europe's biggest steel company, yesterday called on the UK monetary authorities to take action to reduce sterling's strength. The company claimed that the high pound was threatening up to 8.5m jobs and damaging the UK's attractiveness to inward investors.

The company said sterling's 17 per cent rise against other main currencies since last summer was reducing industry's competitiveness and would lead to "sharply reduced" profits among manufacturers.

The strongly worded statement is the toughest comment by a leading company about the effects of the high pound since Labour took office a week ago.

It was interpreted as a call on the Bank of England – which this week was handed responsibility by the government for setting interest rates – to reverse as quickly as possible Tuesday's 0.25 percentage point rise in bank base rates to 6.25 per cent.

The monetary tightening made the pound more attractive to international investors, increasing upward pressure on the currency. But profit taking and a weaker dollar helped sterling yesterday to shed some of its recent gains. It closed 4.7 pfennigs lower against the D-Mark to close in London at DM2.767.

British Steel said that rather than use rises in interest rates to curb economic overheating, particularly in the housing market, the government should damp demand through higher taxation. Higher interest rates hurt manufacturers by making exports more expensive.

"Unless early action facilitating a substantial downward adjustment in sterling's value is taken, an overvalued pound will have a serious effect on many of the 8.5m jobs directly and indirectly involved across manufacturing industry," British Steel said.

British Steel has 50,000 employees and annual sales of £6bn ($12.9bn) with UK exports accounting for nearly a third of this. In recent weeks, analysts in the City of London have halved their forecasts for the company's 1997-98 profits because of the effect of the high pound.

If sterling kept at its recent high levels, British Steel said, UK manufacturers' growth was likely to slow, leading to lower profits, reduced investment and "a longer term loss of competitiveness".

That in turn would reduce the enthusiasm of companies from other countries for setting up plants in the UK.

Neither the Treasury – which, until the Bank formally takes over responsibility for monetary policy next month, is officially still in control of interest rates – nor the Bank would comment directly on the British Steel statement. But the Bank said it recognised the "dilemmas" over setting interest rates to reflect pressures in different parts of the economy.

● An ambitious programme of legislation was agreed yesterday at the first meeting of a Labour cabinet for almost 18 years. There will be bills to allow referendums this year on setting up a parliament for Scotland and a regional assembly in Wales. Other bills will introduce a national minimum wage for the first time and give greater independence to the Bank of England, the UK central bank.

Government officials said a paper would be published setting out the options for freedom of information legislation. However, it might not be enacted until the second session of parliament late in 1998.

■ LABOUR'S TOP MINISTERS FOR IRELAND

Mo Mowlam | Adam Ingram | Paul Murphy

Like many top figures in the Labour government, Marjorie ("Mo") Mowlam, the chief minister for Northern Ireland, has never held ministerial office. She has been MP for Redcar in the north-east, one of the safest Labour seats in England, for 10 years and was shadow Northern Ireland minister in the months before the general election. Aged 47 and the daughter of Post Office workers, she is married to a merchant banker. She read social anthropology and political science at Durham University in north-east England and holds a political science doctorate from Iowa University in the US.

Adam Ingram, minister for security in Northern Ireland, is a Scotsman who began his working life as a computer programmer, spent 10 years as a trade union official and became an MP 10 years ago. Paul Murphy, Ms Mowlam's other deputy at the Northern Ireland Office, is joint secretary of the Franco-British parliamentary group and in opposition was a Labour party spokesman in the House of Commons on foreign affairs and defence, as well as Northern Ireland. He was born in Wales and has worked as a college lecturer on government and spent many years as a local councillor in the area of south Wales he now represents in parliament.

Think-tank speaks of 'threat' by investors

By John Murray Brown in Dublin

The reason for the high level of British government subsidies to Northern Ireland may be that companies from other countries may threaten to leave unless they receive further aid, the Northern Ireland Economic Council, an independent think-tank set up to advise British ministers, said yesterday.

The initial cost of attracting inward investment may "underestimate" the long-term cost of ensuring that non-UK companies stayed in Northern Ireland, it added. "It may well be the case that once companies come to Northern Ireland they can take a strong bargaining position by threatening to leave unless they receive further assistance."

The council alleged that aid from the British government was being used as straight government subsidy rather than a lever to improve competitiveness.

The region receives more assistance per head than any other in the UK. But that approach had "failed to produce an economy which can sustain high wages in the tradeable sector".

The council acknowledged that policymakers faced a challenge in luring business to Northern Ireland because of the political instability. But it argued that support from the Industrial Development Board, the government agency for inward investment, "may at best have maintained productivity . . . and at worst have contributed to declining relative wages".

Between 1990 and 1996, Northern Ireland companies – either new inward investments or existing operations – received £423.7m ($686.4m) in financial assistance for capital costs or training. The report said it was "difficult, if not impossible" to find a project in Northern Ireland that had not received assistance.

The IDB provides an average of 26 per cent, in some cases more than 40 per cent, of the cost of an investment, compared with about 15.5 per cent in Scotland, according to government figures.

But the report points out that only three companies accounted for the total over that period, receiving more than £20m.

Assistance has also been skewed towards sectors such as textiles and clothing, which are more employment-intensive, but have low wages.

Labour productivity is rising but remains lower than in the UK as a whole. The report said any gains in competitiveness were likely to be because of "falling relative labour costs than rising labour productivity".

Premiers differ on call to Sinn Féin

By John Kampfner and Liam Halligan

Mr Tony Blair, the prime minister, yesterday damped expectations in the Republic of Ireland that he would be more amenable than his predecessor to allowing Sinn Féin, the IRA's political wing, into negotiations due to restart on June 3. He made his views known at a meeting in London with Mr John Bruton, prime minister of the republic.

Mr Bruton had earlier suggested that Sinn Féin might be permitted to join the other parties if the IRA restored its ceasefire and took tangible steps to remove the threat of future violence, such as "punishment beatings".

The UK prime minister's office said such a possibility was "unlikely", and that both governments would need time to test the bona fides of the republicans after any announcement.

Mr Blair told Mr Bruton he had every intention to be as involved in Northern Ireland as Mr John Major, the former Conservative prime minister. Mr Blair met Mr David Trimble, leader of the Ulster Unionists, the largest pro-British party, on Wednesday – the first of what is expected to be a regular round of sessions with party leaders.

Mr Bruton, who was accompanied in London by Mr Dick Spring, deputy prime minister, played down the apparent difference in emphasis over Sinn Féin's future participation.

He said: "I was very heartened both by the fact of the meeting so early in his term of office and also by the atmosphere and commitment demonstrated at the meeting."

After months of impasse with Mr Major and a Conservative administration that depended on support from unionists in the last parliament, Mr Bruton said Mr Blair represents "a change for the better on a range of issues relating to Ireland".

"I believe that he is someone who intends to be decisive on a whole range of government issues, including this one," he said. "Not only does his majority and mandate give him that room but also his interest in institutional reform generally gives him an openness into new ideas.

"What's different obviously is that this prime minister has a substantial majority and has a freer hand, so to speak. But at this stage he's very new in this office and we didn't expect instant solutions to any of the issues raised."

Ms Marjorie Mowlam, chief Northern Ireland minister in the British government, who accompanied Mr Blair, said the meeting "reinforced a number of basic agreements, about consent, about the need for Sinn Féin to be in the talks, but for that to happen there has to be a ceasefire."

M&G tops medium-term pension league

By Barry Riley in London

M&G's institutional fund management division has brushed aside the problems of its associated retail unit trust operation to emerge as the medium-term investment performance leader for pension funds, in the annual league table produced by the Financial Times.

Meanwhile, Mercury Asset Management is confirmed as once again the leader in terms of total segregated funds managed for UK pension schemes. Its pension fund assets increased by 11 per cent in 1996 to £54.2bn ($87.8bn), a lead of £6bn over runner-up PDFM.

The full tables appear on Page Two of Pension Fund Investment, published today as a separate section. The figures cover assets managed as separate portfolios for pension schemes and exclude pooled or insured funds.

However, managers are becoming increasingly reluctant to provide performance data, citing the increase in variety of their clients and mandates. It is probable that Morgan Grenfell Asset Management could have claimed the top performance spot over 5 years but declined to provide figures for 1996 although it has provided them in previous years. Mercury has always kept its performance data confidential.

Of the 21 leading managers which disclosed standardised balanced fund performance, Kleinwort Benson claimed top spot on a one-year basis with a return of 13.1 per cent, followed by Cazenove on 12.6 per cent. The median for all funds, according to the performance measurement consultants Caps, was 10.8 per cent.

Over 5 years M&G achieved 15.6 per cent a year on average, followed by HSBC Asset Management on 15.2 per cent, while Jupiter and Schroder tied on 15.1 per cent. The Caps median return for this period is 14.5 per cent.

M&G's results are remarkable because the group's retail unit trusts have in many cases been going through a bad patch. Its Midland & General fund is 109th out of 111 unit trusts in the UK growth and income sector over five years. The struggling unit trust range is to be revamped within a few weeks.

For institutional pension fund clients, however, the same investment process and research base have achieved much better results. This is said to be because the risks have been much more closely controlled.

M&G has also easily outperformed PDFM, a rather similar "value" manager favouring high income and recovery stocks which does, however, take big risks in asset allocation. PDFM has received much adverse publicity in recent months for over-cautiously piling up cash during the equity bull market. The table of funds managed shows that the long-running trend for assets to be increasingly concentrated in a handful of leading managers continued in 1996, helped by the merger of Gartmore and NatWest Investment Management.

However, new competition is coming from US investment managers, with J.P.Morgan included in the table for the first time.

Airline staff accept pay freeze and cut in jobs

By Michael Skapinker, Aerospace Correspondent

British Airways cargo staff have voted for a two-year pay freeze and the loss of 400 of their 1,400 jobs in return for the airline's agreement not to place their work with outside suppliers.

The company said that 76 per cent of cargo staff had voted to accept its cost-cutting plan in a vote by 91 per cent of the workers. The plan received trade union support, and BA hoped that all redundancies could be achieved voluntarily.

The vote followed the announcement last year by Mr Robert Ayling, BA's chief executive, that staff would have to prove they could do their jobs as economically as an outside contractor. If cost cuts could not be achieved, Mr Ayling said, the services would be put out to contract.

The airline said the pay freeze would start at the beginning of next year to bring BA cargo employees' earnings into line with market rates. If other BA staff receive pay increases of more than 3 per cent, the cargo employees will see their own pay rise by the amount above 3 per cent.

Cargo staff have also agreed to changes in working practices and to performance appraisal for all employees.

The agreement follows a vote in March by ground service staff at London's Heathrow airport to accept a two-year pay freeze and lower pay rates for new recruits.

BA said, however, that it is still experiencing difficulties from catering staff at Heathrow's Terminal Four whose unofficial industrial action this week has led to a high proportion of long-haul flights taking off without a full complement of meals.

The company said it was still holding talks with the 1,200 catering workers. It expects some flights to be affected today. Passengers are being given meal vouchers to enable them to eat at the airport before they board flights.

Public-private finance scheme to be reviewed

By Nicholas Timmins, Public Policy Editor

The government yesterday sacked Mr Alastair Ross Goobey, chairman of the Private Finance Panel, as it launched a review of the private finance initiative, pledging to make it more effective. The initiative is intended to attract private funds to public projects and the panel is a state agency which promotes the initiative in the public sector.

As an immediate measure, ministers dropped the rule that all capital projects have to be tested for private finance potential, and promised early legislation to allow the first big deals by trusts in the state health service to go ahead.

But in what Conservative MPs saw as a partisan act, Mr Geoffrey Robinson, the Labour government's Paymaster General, sacked Mr Ross Goobey. The chairmanship will be left open while a five week review of the initiative is conducted by Mr Malcolm Bates, chairman of the Pearl Group. Part of its remit is to develop a new task force within the Treasury.

Mr Ross Goobey, chief executive of Hermes pension management, was a special adviser to both Lord Lawson and Mr Norman Lamont when they were chancellors of the exchequer in the Thatcher and Major governments. The Treasury said it had decided to let him go "as we felt that we just needed a new start".

Mr Andrew Tyrie, a Conservative MP and former Treasury adviser, said Mr Ross Goobey had done an "outstanding" job in developing the initiative. "I just hope this isn't a sign that Labour is going to turn it into a political football." While many in the City of London had expected Mr Ross Goobey to be replaced, they were surprised at the speed of the decision.

To help get PFI projects moving, Mr Robinson said that departments had been told to prioritise those projects they believe will work – while still delivering "a high level" of sustainable schemes. "There are too many projects out there, not enough prioritisation, and not enough drive to get a few that are important realised," he said.

Abolition of the universality rule was greeted as "a major policy leap" by Mr Charles Cox, chairman of the CBI's public procurement committee. The urgency of the review was also welcomed by banks and City firms which have spent millions on projects which have either failed or are yet to be agreed.

But calls from business leaders for the government to set adequate budgets for public spending on capital, as well as realistic PFI targets, brought a warning from Mr Robinson that departments could not expect any increase. There was a shortage of public finance for capital.

The PFI had acquired "a bad name with the City and with practitioners", Mr Robinson said, but the government was determined "to remove the obstacles that have hindered projects for far too long".

UK NEWS DIGEST

Profit basis of lottery to end

The Labour government is to end the present "for profit" basis on which the National Lottery is run after expiry of the seven-year licence awarded to the Camelot consortium by the previous government. The move was confirmed by Mr Chris Smith, the cabinet minister responsible for the game, yesterday.

The consortium consists of Cadbury Schweppes, the UK food and drink conglomerate; De La Rue, the security printers; GTech, the US lottery equipment company; Racal Electronics; and ICL, a computer offshoot of Fujitsu. Camelot will celebrate the third anniversary of the lottery in November. The news will come as a blow to Camelot, which hoped that it would have a chance to bid for a new licence. Camelot makes just under 1 penny in the pound profit from the lottery but has become profitable more quickly than was widely expected.

Earlier this week Mr Richard Branson, the Virgin chief, said he had been recently assured at the highest levels of the Labour party that the National Lottery would be run by a non-profit making organisation in future. Mr Branson was a contender for the lottery licence when it was awarded to Camelot.

Mr Smith is about to set up a "serious review" of the planned millennium exhibition in Greenwich, south-east London, which is to be financed from lottery funds. Labour said while in opposition it would review the project when in office. Mr Smith said yesterday he hoped a decision could be taken within a month on whether to continue with the project. The government also plans to push ahead immediately with its aim of diverting all the "good cause" money from the Wednesday night on-line National Lottery draw to projects in health and education. The switch of use of lottery funds – unexpectedly announced during the general election campaign – will appear in the Queen's Speech at the opening of the new parliament next week. *Raymond Snoddy*

■ THE ECONOMY

Buoyant retail demand reported

Almost two-thirds of retailers reported increased sales last month, the Confederation of British Industry's distributive trades survey, which covers 15,000 retailers and other distributors, showed yesterday. Some 59 per cent of retailers said sales had increased compared with the same time a year ago, while only 17 per cent said sales had fallen. The survey painted a picture of buoyant consumer demand in contrast to the recent weak performance of industry. Mr Simon Briscoe, an economist at Nikko Europe investment bank, said: "Following the weakness of [Wednesday's] manufacturing figures, these data show that the split in the economy's performance is alive and well." April's rate of increase was the highest since November last year. A positive balance of 42 per cent of retailers reported annual growth compared with only 33 per cent in March and 24 per cent in February. The CBI also said that growth is expected to continue at a similar pace in May. *Richard Adams*

■ DOMESTIC APPLIANCES

Consumers opt for premium labels

Consumers are trading up to premium brands of domestic appliances, according to figures from GfK, a marketing services company. Last year the rise in the value of "white goods" – such as cookers and fridges – sold through retail outlets was comfortably higher than the increase in sales volumes, mainly because of the shift to higher-price appliances. GfK reports the retail value of appliances sold in the UK as up 6 per cent on 1995, while volumes in terms of units sold increased only 4 per cent. This has benefited manufacturers such as the Anglo-American Hotpoint, Bosch-Siemens of Germany and Electrolux of Sweden, which have put more marketing effort into higher-price products. The move to more expensive goods has been particularly marked for dishwashers. Consumers seem prepared to pay up to £500 ($810) for a premium-price brand, more than twice the price at the cheap end of the market. *Peter Marsh*

■ CAR SALES

Gains for VW, Renault and Volvo

Registrations of new cars	Apr 1997 Volume	Apr 1997 Change %	Apr 1997 Share %	Apr 96 Share %
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK Produced	65,379	3.9	35.8	38.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese makes	25,347	11.9	13.9	13.9
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
General Motors (1)	27,041	5.1	14.8	15.6
Vauxhall	25,810	4.6	14.1	15.2
Saab	1,231	16.8	0.7	0.6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Peugeot group	18,570	5.1	10.2	10.9
Peugeot	13,906	5.6	7.6	8.1
Citroen	4,664	3.7	2.6	2.8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Renault	14,204	34.5	7.8	6.5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Toyota	6,726	22.9	3.7	3.4
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Volvo	3,932	37.1	2.2	1.8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Honda	4,367	0.4	2.4	2.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Korean makes	4,107	9.9	2.2	2.3

1. GM holds 50% of Saab Automobile and has management control. 2. Includes Range Rover/Discovery 3. VW holds 70% of Skoda and has management control.
Source: Society of Motor Manufacturers and Traders.

Imports increase market share

Imports last month increased their share of the market for new cars, accounting for 64.2 per cent of registrations, up from 61.3 per cent a year before. In the first four months as a whole, they accounted for 65.1 per cent, up from 61.4 per cent a year ago. New car registrations surged by 12.3 per cent last month, raising the prospect of new car sales this year coming close to matching the record 2.3m achieved in 1989.

The upsurge saw private buyers returning to the market to an extent not expected by the industry. They bought 30,000 cars last month, 10,000 more than in the previous April. April's registrations lifted the total this year to 732,281, up 5.5 per cent on the first four months of last year, putting the market on course for at least its second highest year on record. *John Griffiths*

RECRUITMENT

Employers should expect change in UK labour practices, says **Robert Taylor**

The alternative agenda

The victory of the Labour party in last week's UK general election will have far-reaching implications for the recruitment market – as can be seen from a hastily written but useful briefing paper from Incomes Data Services, the independent employment research organisation, on what employers can expect.

A white paper on employment is expected this summer which should contain more details on Labour's wider employment agenda. But enough is already known for employers to prepare for change:

● Legislation to end discrimination in the recruitment and training of older staff and further provisions to help the disabled in the labour market.

A new agency may be established to enforce reform. It is probable that companies will not be able to set an age limit in the advertising of job vacancies.

● The implementation of the European Union directive that grants new parents three months' unpaid leave from work. This lays down a minimum framework and allows special requirements for small enterprises, length of service qualifications and what form the leave should take.

● A minimum wage for everybody over the age of 18 – although it may be two years before it comes into force. A Low Pay Commission with representatives from companies will consult widely on the level of the minimum wage and the details of how it will work.

● Legislation to implement the European Union working time directive which gives all employees (except for those in certain sectors) the right to refuse to work more than an average 48-hour week. They will also have three weeks' paid annual holiday, rising to four weeks in 1999. The law lays down the length of rest periods and rules for night working.

● A recruitment subsidy for employers for each unemployed young person under the age of 25 they recruit. Part of the welfare-to-work plan for the long-term jobless, it will provide employers with a £60 ($97) a week tax rebate for six months for each such recruit.

"This will represent an attractive proposition for some companies," says Incomes Data Services. The details of how it will operate in practice have yet to be worked out, but the expected summer Budget should fill in the gaps.

Labour's commitment to ensure that all employees enjoy legal rights at work from the start of their employment has been dropped. At present, employees must have worked for two years before qualifying (longer for part-timers).

The new government will wait for a European Court decision on whether the present UK legislation breaches EU law on the length of qualifying period before introducing change. But there is a promise to look at how staff can be protected from abuses such as zero-hour employment contracts that provide for no guarantee of regular work but expect workers to work any number of hours at any time employers demand.

None of these measures individually will transform recruitment practices in a radical way. However, the cumulative impact will certainly modify much thinking on recruitment.

The New Agenda is available from Income Data Services, 77 Bastwick Street, London EC1V 3TT, UK

Insecure outcome

Many commentators have seen employment security agreements providing "core" full-time employees with permanent contracts as a way of reducing insecurity at work. But a report published this week by Industrial Relations Services, an employment research group, says such arrangements may actually add to job insecurity.

In order to guarantee job security for key workers, companies are likely to create a pool of temporary staff on fixed-term contracts as a "buffer" to insulate them from demand fluctuations.

Such job security deals are also sometimes negotiated in the wake of large-scale redundancies or in advance as a way of ensuring job cuts are accepted and do not have to be compulsorily enforced.

But the survey found a primary reason for introducing employment security agreements was "to enlist employees as partners in the process of change".

The survey covered 18 companies, including Tate and Lyle Sugars, Scottish-Power Generation wholesale division, the Co-operative Bank, Ford Motor Company, the Rover group and Blue Circle Cement.

IRS Employment Trends 631, £20, from Industrial Relations Services, 18-20 Highbury Place, London N5 1QP, UK

Pay patterns

Volatility is what characterises salary and bonus trends for staff employed in capital markets and in futures and options, as can be seen from the latest survey of international banks and investment houses from Monks Partnership (see table).

Capital markets heads have an average 72 per cent of their £154,700 ($250,600) a year determined by bonuses. For futures and options heads it is 67.9 per cent of their £137,300 a year and for bond sales heads 66.9 per cent of £107,300 a year.

There is less volatility in credit and banking, where wage rises average 5 per cent and bonuses 10 per cent. Private banking heads receive an average of only 16.3 per cent of their £118,100 a year from bonuses.

Monks Partnership, The Mill House, Wendens Ambo, Saffron Walden, Essex CB11 4JX, UK. £290 for non-participants and £145 for participants

Salaries, bonuses and car allowances in City of London finance

	Base salary			Average salary		Car provision/allowance		
Position	Lower quartile £000	Median quartile £000	Upper quartile £000	Salary £000	Bonus %	With car %	Value £000	Annual allowance £000
Corporate finance head	109.3	120.0	161.7	132.5	61.9	100	22.2	7.2
Capital markets head	139.2	166.5	185.9	154.7	72.0	90	25.2	8.6
Bond sales head	93.8	106.3	121.3	107.3	66.9	71	22.5	6.7
Fund management director	102.5	120.0	155.7	130.1	52.0	100	24.0	7.7
Futures & options head	94.5	128.0	167.8	137.3	67.9	80	[illegible]	6.7
Eurobond trading head	100.0	125.0	131.7	119.6	49.3	79	26.2	6.5
Equity trading head	88.0	110.0	141.8	118.1	57.3	83	23.0	8.0
Private banking head	81.4	95.2	114.1	97.9	16.3	58	–	7.5
Head of research	97.7	102.2	132.5	115.2	59.4	100	23.5	7.4
Financial director	74.6	85.0	96.6	92.9	40.4	81	22.5	7.5
Chief FX dealer	72.9	80.0	105.0	88.8	23.2	87	16.0	5.7
Legal services head	60.0	72.0	83.7	73.7	24.3	90	21.1	6.3
Personnel director	75.5	81.5	100.0	89.0	[illegible]	83	30.5	8.6
Money market head	62.0	71.8	85.0	75.9	38.3	79	19.5	6.1
DP director	61.8	70.3	84.7	73.0	25.4	70	20.5	5.8
Credit manager	41.0	46.7	50.0	45.9	10.4	59	14.3	5.6
Customer services head	27.4	29.6	[illegible]	30.6	7.7	24	16.0	4.9

Source: Monks Partnership

▶ LONDON-BASED ▶ £ EXCELLENT PACKAGE

HSBC Investment Banking

Member HSBC Group

M&A and Corporate Advisory

HSBC Investment Banking is part of the HSBC Group, one of the world's largest banking and financial services organisations, with an international network of more than 5000 offices in 78 countries. The HSBC Group offers unrivalled financial resources, global reach and contacts. Committed to further developing our impressive transaction record, we are now looking to build on our strong position in Investment Banking.

Exceptional opportunities exist for talented individuals to develop their experience across a wide range of UK and international transactions, including the origination, structuring and execution of mergers, acquisitions and divestitures for quoted and unquoted companies, equity offerings and privatisations.

Successful candidates will be exposed to HSBC Investment Banking's growing UK and international client base, and will work closely with its industry specialists and network of international offices in 40 countries worldwide.

Candidates of the highest quality are sought:

- Graduates with two to seven years' M&A or Corporate Advisory experience gained within a leading financial institution. Exposure to a range of high-profile transactions conducted within the UK or internationally is required.
- An excellent academic background and keen intellect. Additionally, an MBA, ACA or legal qualification would be advantageous.
- First class analytical, technical and presentation/communication skills
- Team players with initiative, creativity and flair, together with a high level of motivation and commitment.
- Fluency in a European language, in addition to English, is a distinct advantage.

Morgan McKinley
EXECUTIVE RECRUITMENT

Please send full cv to:
Stephen Grant, Morgan McKinley,
Wellington House, 125 Strand, London
WC2R 0AP. Tel: 0171 557 7222 Fax: 0171 836 3456
email@morgan-mckinley.co.uk

EMERGING MARKETS - EQUITY ANALYSIS/ECONOMICS

London Based
£Excellent
+ bonus + benefits

Salomon Brothers is one of the world's leading integrated financial institutions and a pre-eminent force in the global securities markets. Continued controlled expansion of its emerging markets business has created a need for several exceptional individuals to join the high-profile equity and economic research functions, particularly at the analyst/associate level.

In Equity Research, opportunities to join emerging markets research teams exist in the following areas (fluency in the indicated language[s] is essential):

- Russia (Russian)
- Central Europe (Czech and Hungarian)
- Turkey (Turkish)
- Middle East/North Africa (French and Arabic)

Suitable applicants must possess at least two years' of pertinent experience, as well as local knowledge of the relevant domestic financial markets. An outstanding academic track record and an MBA is required. A further post-graduate degree (MSc or PhD) is preferable but not essential. Excellent communication and presentation skills are vital, as is the drive and motivation to succeed within a highly competitive market.

Opportunities in Economic and Market Analysis exist for both Russian and Eastern/South Eastern Europe. A PhD in economics is required as are top-notch analytic, communication and quantitative skills. Some experience - either in the public sector or in a research setting - is desired, as is familiarity with financial markets and skills in the Russian language.

Salomon Brothers offers a meritocratic and challenging environment coupled with ongoing technical training and staff development programmes. An excellent remuneration package is offered which is designed to attract and retain the very best individuals.

Interested applicants should contact Paul Marsden or Matthew Barnes our retained advisers on 0171-353 7533 or Fax: 0171-353 7703. Alternatively, write enclosing your CV to **Astbury Marsden Search and Selection,** Hamilton House, 1 Temple Avenue, London EC4Y 0HA.

Salomon Brothers

Alternative Investment Strategies

Product Specialists

Geneva — Competitive Salary + Bonus + Benefits — London

The Alternative Investment Strategies group (AIS) – the specialised investment arm of one of the world's leading financial Institutions – structures, packages and delivers innovative investment products whose objective is to balance the potential for attractive return with manageable risk. Located in seven major financial centres, the AIS group covers a range of products including credit structures (CLOs/CBOs) and funds (multi-advisor, hedge funds, venture capital, private equity).

Capitalising on its expertise and experience in managing non-traditional asset classes, the AIS team is now seeking to expand its operations in London and Geneva to handle new business opportunities. Three senior level positions are open – one for the Geneva office and two for the London office, with a special focus on the fund aspect of the business.

Role/Responsibilities

- Tailor new and innovative product structures to suit investor needs through a sound understanding of the products
- Provide execution support and management of transactions to ensure outstanding client service on both the fund and credit structures side
- Leverage the institution's distribution centres, develop an investor base through existing investor contacts and by identifying and winning business opportunities across Europe/Middle East region.

Successful candidates will have the following qualities

- At least 3-5 years experience in the area of private equity or hedge funds
- Bring added-value in the form of a network of relevant investor and industry contacts
- Competent originator of new business, strong track record in sales and marketing
- Good understanding of institutional investors' needs
- Strong academic background, preferably with an MBA.

This is an outstanding opportunity to join one of the most successful organisations within this fast growing market and to be part of the future development of the AIS team.

For further development discussions, please contact Patrick Morrissey. Telephone: 0171 236 2400. Fax: 0171 236 0316 or apply in writing to: Sheffield-Haworth Limited, Prince Rupert House, 64 Queen Street, London EC4R 1AD.

SHEFFIELD-HAWORTH
Consultants in Search and Selection

Global Markets

Associate

Derivatives Structuring and Marketing

Deutsche Morgan Grenfell is the investment banking arm of Deutsche Bank and a leading provider of risk management products. The bank's Global Relative Value Group is a key driver of this business and forms part of the Global Markets Division with a presence in over 30 countries worldwide. Continuing growth and success has created a number of excellent opportunities for career minded graduates.

The Role
Based initially in our London office, you will have a key role in supporting the distribution efforts of our Institutional Client Group.

Responsibilities will include designing, structuring, pricing and executing a range of customised securities and derivatives involving direct contact with the group's client base. These will include foreign exchange, fixed income, equities and will also focus on emerging markets.

Background
You will be a graduate, either MBA or first degree qualified, with an academic grounding in engineering, accountancy or the sciences. You will have at least one year's relevant market experience in the areas of fixed income, derivatives trading or sales, market risk management, debt capital markets or possibly front office IT system development.

Whatever your background, you must have a highly developed understanding of the fixed income and derivative markets and enjoy the creative and quantitative aspects of the business. Team oriented with a natural outgoing personality, you must be able to build effective relationships both internally and externally. Strong communication skills and the ability to conceive, write, and present your case coherently are key attributes to the role. Fluency in a second European language, ideally French, Dutch or of a Scandinavian origin would be advantageous.

London May 1997

Please write enclosing a full curriculum vitae and covering letter to:
Martyn Elms, Global Markets Recruitment Ltd, 14 Masons Avenue, London EC2V 5BT.
Tel: 0171 776 4700, Fax: 0171 600 4717 Email: martyn@gmr.co.uk
All direct or third party responses will be forwarded to Global Markets Recruitment Ltd.

Deutsche Morgan Grenfell

LEADING INTERNATIONAL BANK

CREDIT MANAGERS

Excellent remuneration package — LONDON

The credit risk management function of a leading banking and financial services institution is offering unique and challenging opportunities in either emerging markets or structured trade finance credit analysis.

The Bank provides corporate, financial and institutional customers with extensive treasury, banking, commodity, structured trade finance, corporate finance, asset management, investment and international services. The Group has total assets exceeding US$620 billion and employs more than 30,000 people worldwide.

The Positions

- Managers to join a highly reputed Credit Team which is central to this International Bank's growing activities.
- Take responsibility for either the analysis of counterparty risk for the Emerging Markets or the risk analysis of Structured Trade transactions.
- Liaise extensively with the product specialists, traders and marketing staff to support counterparty/client requirements.
- Possible assistance with country risk analysis and some involvement in complex or large transactions.

The Requirements

- A minimum of three years' credit training and some exposure to a treasury trading environment would be useful.
- Either a good understanding of treasury derivative products and knowledge of market risk practices related to credit limits/exposure, or a good comprehension of the risk, both credit and transactional, in structured trade transactions.
- A knowledge of country risk issues and an economics background would be an advantage.
- Ideally aged between 27-35, well-educated, with strong written and oral communication skills.

Please send your CV with current salary details to: Sara Kenderdine-Davies, K/F Selection, 252 Regent Street, London W1R 6HL, quoting ref: 90512/D2. Alternatively send by fax on 0171-312 3380 or by e-mail to cv@kfselection.com Internet Home Page: http://www.kfselection.com

K/F SELECTION
A DIVISION OF KORN/FERRY INTERNATIONAL

BPP

TRAINING & CONSULTANCY

The Markets division of BPP Training & Consultancy, a division of BPP Plc, is seeking to appoint additional consultants to support strong growth in its Capital Markets Treasury and fund management activities.

Vacancies exist for experienced market practitioners who have strong knowledge of Capital Markets, International Bonds, Derivatives, in particular complex Swaps and associated risk issues.

The role requires excellent communication skills for the delivery and preparation of training programmes, product development, new business development and consultancy projects.

Previous experience of training is not essential but a willingness to coach and teach them is required. A second language is an additional advantage.

Candidates will either have suitable formal qualifications or be able to demonstrate practical market experience. Salary packages are fully negotiable and reflect success in the role.

The BPP group has a reputation for the highest standards. If you feel you can add value to BPP and our client business, please write enclosing CV to:

Rodney Fetzer
Head of Markets
BPP Training & Consultancy
Moorgate Hall
155 Moorgate
London EC2M 6XB

Positions are based in London with some overseas assignments.

Energy Brokers

An established energy broking company is undergoing an aggressive expansion programme and is seeking to recruit experienced individuals, who will already be traders or brokers, for the following product areas:-

- **Gasoline;**
- **Fuel Oil;**
- **Gas Oil;**
- **Natural Gas;**
- **Electricity.**

Individuals should have successful track records in their product areas and be active in institutional markets throughout Europe.

Candidates will work in small teams within the overall structure of the company and will be supported by an established professional structure.

Successful applicants will receive an attractive remuneration package and the possibility to achieve a substantial bonus.

Interested candidates should send a full curriculum vitae, giving details of their career to date, emphasising their relevant broking or trading experience to:

Box A5429, Financial Times,
One Southwark Bridge, London SE1 9HL

正風利富會計師行
Glass Radcliffe Chan & Wee
CERTIFIED PUBLIC ACCOUNTANTS

GRCW is a growing firm of CPAs with approximately 150 professional and support staff and affiliated offices regionally and internationally.

We invite applicants for the position of:

SENIOR MANAGER

We anticipate the successful candidate will be a Chartered or Certified Accountant having had in the region of 8 years audit experience, preferably with larger firms. Good communication skills and computer literacy required. Ability to speak Chinese will be an advantage but is not essential.

Attractive salary with fringe benefits will be offered to the right candidate. (Circa GBP50,000)

Please write with CV and full personal details to:

The Personnel Manager
8/F Yu Yuet Lai Building
43 Wyndham Street
Central Hong Kong

GENERAL MANAGER

United Arab Emirates

A well established lube oil blending company located in the U.A.E. seeks a General Manager to supervise all aspects of the company's activities.

The company is engaged in blending and marketing its own brand of lube oil as well as blending for multinational companies.

Write enclosing CV to:
Box A5421, Financial Times,
One Southwark Bridge, London SE1 9HL

Reinsurance Australia Corporation Ltd.

Established in 1993, Re AC has successfully completed phase one of our corporate objectives having built a diversified portfolio with GWP in excess of US$400m and offices in Sydney, Monaco, Nice and Miami. Having recently raised further capital, shareholders funds are approximately US$350m and market capitalisation US$500m. In order to achieve the next phase of planned growth Re AC is looking to appoint 3 new key underwriting positions. The importance of these key rules naturally implies an attractive and market competitive package will be available together with relocation costs.

LLOYDS & LONDON COMPANY MARKET UNDERWRITER

SYDNEY

The key objective of this role is to further develop the existing book of London market primarily excess of loss business.

Based in Sydney and reporting directly to the Managing Director, this will be a key underwriting position which will provide the opportunity for rapid progress to underwriting responsibility for a significant portfolio.

The successful candidate must:

- have an excellent track record with at least 10-15 years experience as an underwriter in the London market;
- be currently writing a substantial account;
- be well travelled and a self-starter;
- have an established network of business contacts;
- preferably have a recognised insurance qualification or appropriate tertiary qualifications; and
- be confident with the use of IT in processing and decision making.

SENIOR UNDERWRITER AVIATION & SPACE

SYDNEY

This is a new role designed to expand an existing book of proportional and excess of loss business. The location will most likely be Sydney and the person will report directly to the Managing Director.

The successful candidate must:

- have an excellent track record with at least 10-15 years experience as an aviation & space underwriter in the London market;
- have an established network of business contracts;
- preferably have a recognised insurance qualification or appropriate tertiary qualifications; and
- be confident with the use of IT in processing and decision making.

Monde Re

SENIOR UNDERWRITER

MONACO

Working closely with the Managing Director in Monaco, the objective is to develop a global catastrophe portfolio leveraging off London market relationships and a commitment to service. Monde Re is a wholly owned subsidiary of Re AC and recently commenced operations (December 1996) with initial capital of US$100 million.

This new position will provide the opportunity for:

- rapid progress to underwriting responsibility for a significant portfolio; and
- extensive international travel, client liaison & business development.

The successful candidate must:

- have an excellent track record with at least 10 years reinsurance underwriting experience.
- be fluent in English
- have an established international network of business contacts; and
- be confident with the use of IT in processing and decision making.

To apply for any of these roles, please forward your CV by facsimile to Bill Robinson (General Manager Planning & Administration) on the following confidential number +61 2 9247 6269. Interviews will be held in London in early June by one of our directors.

Reinsurance Australia Corporation Ltd., Level 41 Australia Square, Sydney AUSTRALIA 2000

STANDARD & POOR'S

Standard & Poor's MMS is the world's leading provider of on-line analysis for the global foreign exchange, bond and money markets. With a team of over 100 fundamental and technical analysts working in 14 financial centres, Standard & Poor's MMS delivers a total of 14 specialist analytical services to more than 35,000 screens worldwide.

To develop the teams of analysts covering both the European and global financial markets we seek motivated and experienced candidates for the following positions:

Market Economist

Working as part of our international foreign exchange analytical team, you will need experience in the forex markets and an interest in a broad range of currencies, coupled with the ability to react quickly with authoritative views to market moving events. A BA or Masters degree (or equivalent) in economics or finance is required, specifically with a strong background in international financial markets.

Technical Analyst

Working with a large and experienced team, you will need at least one year's experience of Technical Analysis in a trading environment, with exposure to Currency or Futures markets. A financial or numerate degree is required, and the successful candidate should have, or be working towards, the Diploma in Technical Analysis as offered by the Society of Technical Analysts.

Interested candidates should reply with a covering letter and CV to:

Jean Hennessy
Standard & Poor's MMS
14 Ryder Street
St James's
London SW1Y 6QB

A Division of The McGraw-Hill Companies

SGS Société Générale de Surveillance Holding S.A. (the SGS Group), founded in 1878, with headquarters in Geneva, Switzerland, is the world's largest organisation in the field of testing, inspection, verification and quality systems certification. The Group operates in over 140 countries with 354 subsidiaries, 1 255 offices, 365 laboratories and 37 000 employees.

The Group's worldwide operations have expanded rapidly during the last years. Given the increased audit universe, we are looking for complementing our Internal Audit Function with high calibre and dynamic individuals for the position of :

INTERNAL AUDITOR (M/F)

Tasks and responsibilities

- Performing financial and operational review missions worldwide in the SGS Group universe
- Advising on improvements of operations in terms of minimising risks, improving quality, efficiency and effectiveness
- Understanding operational, local and business considerations
- Special projects, including due diligence work

Profile of the suitable candidates:

- Qualified auditor (CA, CPA, CIA, Expert comptable diplômé)
- Two to five years relevant work experience in an international environment after gaining audit qualification
- Fluent English and either French or Spanish essential; any other language desirable
- Willingness to travel up to some 60% and to undertake this role for a number of years
- Excellent communication and writing skills

For successful candidates this position, clearly offers exciting career prospects in the SGS Group.

Interested candidates should send their application letters and curriculum vitae to SGS Société Générale de Surveillance S.A., Human Resources Division, P.O. Box 2152, CH-1211 Genève 1
Interviews will take place early June. Closing time for application : May 26th 1997

Societe Generale de Surveillance SGS

Head of Credit & Marketing

Arab National Bank, a leading Saudi Arabian bank, is seeking to recruit a senior corporate banker to head the London branch's Credit & Marketing Department.

The Credit & Marketing Department primarily focuses on handling trade and capital flows between Europe and Saudi Arabia in addition to various specific deals.

The successful candidate will have strong credit skills, excellent team leadership qualities along with a proven marketing ability and a good overall knowledge of banking products.

In addition to being a member of the Credit Committee the appointee will also sit on the Management Committee. The position offers extensive travel within Saudi Arabia and Europe.

An attractive salary with the usual benefits will be offered.

Replies in confidence to: Karen Cleary, Arab National Bank, P.O. Box 2LB, 47 Seymour Street, London W1A 2LB Facsimile Number 0171 724 8241

Arab National Bank

DRAKE FINANCIAL APPOINTMENTS

Emerging & Capital Markets Supervisor

GENEVA

Salary, Bonus and Benefits Package to Attract the Best !!!

My client, a rapidly expanding American investment management & research organisation is searching for a team oriented professional with an international outlook. They have a 60 year pedigree and over US$250 billion under management.

THE ROLE

- OPERATIONAL RESPONSIBILITY FOR DEVELOPING UNDERSTANDING AND EXPERTISE WITHIN CAPITAL & EMERGING MARKETS
- SUPERVISE DAY TO DAY ACCOUNTING FOR MUTUAL FUNDS IN CAPITAL AND EMERGING MARKETS
- POINT OF REFERENCE & SUPPORT FOR DAY TO DAY OPERATIONAL MATTERS

THE CANDIDATE

- STRONG CAPITAL & EMERGING MARKETS OPERATIONAL EXPERIENCE
- ACCOUNTING KNOWLEDGE OR QUALIFICATION WITH RELEVANT EXPERIENCE
- MUTUAL FUNDS OR ASSET MANAGEMENT EXPERIENCE
- *ASSIST IN SUPERVISION OF* THE DEPARTMENT
- COMMITTED TEAM PLAYER WITH WELL DEVELOPED COMMUNICATION & INTERPERSONAL SKILLS
- ABILITY TO TRAIN, COACH, MENTOR AND SHARE KNOWLEDGE
- INTERNATIONAL MULTI-CULTURAL OUTLOOK

Interested Candidates should write enclosing a full CV, giving current salary details and quoting Ref CI/ST to:
Lascelles M Lawrence
Drake Financial Appointments, 62-63 Fenchurch Street, London EC3M 4AQ. Tel: 0171 488 2425 Fax: 0171 481 0125

CORPORATE FINANCE

Russia/Eastern Europe

Our client – a leading investment bank – is looking to recruit an experienced professional to join its Corporate Finance team.

Your duties will include:

- working on a broad variety of advisory projects including acquisitions, recapitalisation, debt refinancing and equity transactions, focusing on Russia and Eastern Europe
- business development of new advisory mandates
- developing and maintaining client relationships in Russia and other Eastern European markets
- financial modelling, analysis and research.

Our client welcomes applications from graduates who hold an MBA from an international business school and who speak fluent Russian and English. A minimum two years' experience in a blue-chip investment bank, with an in-depth knowledge of the high tech and/or telecom sectors in Eastern Europe is essential; preference will be given to candidates who have established relationships with Russian, UK and US corporates in the relevant sectors and who have a track record of advanced financial analysis. Knowledge of a third European language would be useful.

Applicants should be prepared to travel, and possess the energy, creativity and confidence to succeed in a demanding and rewarding environment.

To apply, please send your CV, quoting ref: 699, to: *Alastair Lyon, Confidential Reply Handling* Service, Associates in Advertising, 5 St John's Lane, London EC1M 4BH.

Applications will only be forwarded to this client, but please clearly indicate any organisation to whom your details should not be sent.

aia
HR MARKETING & COMMUNICATIONS

MANAGER DESIGNATE

I require two well educated individuals (23-30) who want to be trained to fill management positions within a successful and expanding private company. The career path will reward those who accept responsibility with the job satisfaction and financial gain they deserve. *Call*

LEE JOHNSON
0171 576 7164

ASIAN DERIVATIVES

Leading derivatives brokerage seeking to expand their Yen & Asian currency Interest rate options area requires individuals to join their operations in major Asian centres.

Highly competitive packages

Confidential Fax
+852 2527 6411

DERIVATIVES MARKETING EXECUTIVE

Leading financial futures exchange in Asia Pacific basin is seeking experienced marketing executive to develop & implement the marketing and communications program and to direct staff of four. Exciting opportunity for marketing professional with background at exchange or financial institution and strong analytical skills. Knowledge of derivative products a plus. Minimum 2-year commitment. Please send your resume and income requirements to:

"Suite 600"
425 Madison Avenue
New York, NY 10017-USA
Fax: 001-212-888-6157
e-mail:
job@emailaddress.com

PARTNERS *for* Investment Company

European 'entrepreneur', ex cross-border M&A, seeks like minded senior professionals, with complementary skills, to create research, investment and consultancy company, focusing on undervalued UK listed companies, achieving capital growth via active value enhancement.

Confidentiality assured.

Write to: Box A5428, Financial Times, One Southwark Bridge, London SE1 9HL

Fed up with the City?

Private Client Investment Managers thrive in the North of England

Contact in confidence:
Christine White,
Border Asset Management,
14 Main Street, Kirkby Lonsdale,
Cumbria LA6 2AE
Tel: 015242 72941

Institutional Sales Executive

Based in Luxembourg
Excellent salary + Bonus + Benefits

The European asset management arm of a major global investment bank, with around US $100 billion under management, requires an additional institutional sales executive to join a rapidly expanding business.

The company has a wide range of products including segregated asset management services, pooled investment vehicles and offshore funds. Based in Luxembourg, he/she will be responsible for marketing discretionary management services to a portfolio of Belgian and Luxembourg clients incorporating pension funds, private banks, insurance companies and large independent asset managers.

The ideal candidate will be fluent in French and have a minimum of five years' previous sales experience within an established institution.

This challenging and demanding role will be directly responsible to the Country Head in Luxembourg and offers unlimited future progression.

For a confidential discussion please contact Patrick Morrissey.
Telephone: 0171 236 2400, Fax: 0171 236 0316 or apply in writing to:
Sheffield-Haworth Limited, Prince Rupert House, 64 Queen Street, London EC4R 1AD.

SHEFFIELD-HAWORTH
Consultants in Search and Selection

ACCOUNTANCY APPOINTMENTS

FINANCE DIRECTOR

c.£70,000 + benefits + car — **GREATER LONDON**

This is a truly exceptional opportunity to play a key role in establishing a major new retail initiative, with a projected turnover of £1bn by year 2001. This ground-breaking enterprise calls for a management team of the highest calibre to lead the operation through its crucial formative period. The goal is a nationwide retail network of car superstores, with an unprecedented commitment to the highest standards of quality, customer focus and financial services.

This high-profile position within a dynamic team - responsible for financial activities at both strategic and operational level - represents an outstanding career opportunity for an entrepreneurial individual to help spearhead this ambitious venture. Planned flotation in 3-5 years means that share participation will be a major feature of the remuneration package designed to reflect the importance of this role.

The Position

- Establish with the IT Director a fully comprehensive accounting system for both UK and US accounting practices.
- Advise on accounting standards for flotation, limited liability partnerships, audit, legislation and VAT/PAYE requirements.
- Recruit and manage a dynamic finance team.
- Present with confidence and intellectual vigour to senior business executives in both the City and industry.

The Requirements

- A high-calibre qualified accountant, ideally ACA/FCA with proven commercial experience and a 'hands on' approach to business.
- Must be commercially astute, with first-class presentational skills, capable of interfacing with senior executives, yet able to motivate staff.
- Innovative and proactive approach with the ability to manage change in a rapidly expanding business.
- Strong lateral thinking skills and problem-solving capabilities with a high level of motivation.

Please send your CV with current salary details to: Sara Kenderdine-Davies, K/F Selection, 252 Regent Street, London W1R 6HL, quoting ref: 90260/D2. Alternatively send by fax on 0171-312 3380 or e-mail to cv@kfselection.com Internet Home Page: http://www.kfselection.com

K/F SELECTION

A DIVISION OF KORN/FERRY INTERNATIONAL

STANDARD LIFE

HEAD OF TREASURY

Substantial Package — **EDINBURGH**

With assets of some £50 billion under management and a AAA-rating, Standard Life is Europe's largest mutual life assurance company. With a reputation for customer service, change and innovation, the company continually seeks to develop new product lines and services, which has culminated in the recent decision to establish Standard Life Banking Services. As a result, the established treasury operations will be called upon to invest ever-increasing cash balances in the sterling markets, a wide range of foreign currency markets and related derivatives. The company therefore seeks to recruit a talented and entrepreneurial treasury professional to further develop the function and play an important role in the development of the retail banking operation.

The Position

- Manage and develop the day-to-day activities of the treasury function, challenging traditional practices and establishing new professional standards.
- Influence the development of Standard Life Banking Services, ensuring control procedures for the Bank of England and assist in pricing and product development.
- Mastermind the review and further development of international FX and sterling management systems, improving reporting and projections.
- Develop and maintain strong working relationships with banking counterparties.
- Manage, motivate and develop an established young team of dealers, leading by example.

The Requirements

- Senior treasury specialist, professionally qualified and of graduate-calibre with extensive experience on the sterling, FX and related derivatives markets.
- Proven management ability with a thorough understanding of the retail banking sector and its related products.
- Proactive self-starter, capable of building a team and with the ability to sell new ideas and working practices within the organisation.
- First-class presentational skills, enabling effective communication with both junior staff and senior executives.
- High levels of initiative, coupled with a hands-on approach to work.

Please send your CV with current salary details to David Burton, K/F Selection, 252 Regent Street, London W1R 6HL, quoting Ref: 90320/A. Alternatively send by fax on 0171-312 3380 or by e-mail to cv@kfselection.com Internet Home Page: http://www.kfselection.com

K/F SELECTION

A DIVISION OF KORN/FERRY INTERNATIONAL

BARCLAYS PRIVATE BANKING

HEAD OF INTERNAL AUDIT

Central London — **Attractive package**

Barclays Private Banking is an independent bank within the Barclays Group and incorporates BZW Portfolio Management. The bank employs over 800 staff with assets under management in excess of $25 billion, and has a world wide presence in 21 jurisdictions.

The Bank is seeking a Head of Internal Audit to manage its Internal Audit department undertaking risk based audits, including at overseas locations, which add value to the business and enhance operational effectiveness. This is a high profile role reporting to the Managing Director and Barclays Group Internal Audit at a senior level.

Qualified accountants or bankers with established experience in Audit, Financial Services or Investment Management – should write outlining their suitability for the position and enclosing a curriculum vitae, including current remuneration details, to Carrie Andrews at Ernst & Young Management Resourcing, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH quoting reference CA119.

Operational Auditor

EMI

c. £35,000 + FE Car + Excellent Bens

EMI Music is one of the world's leading music groups with a truly global spread of businesses and outstanding portfolio of superstar recording artists. Following the demerger from Thorn EMI, the group is now highly focused with a dynamic management team committed to producing accelerated organic/ acquisitive growth, leading to substantial world-wide business opportunities. The company culture is both competitive and highly entrepreneurial.

As a result of a recent internal promotion into a senior line role the London based Internal Audit department seeks to appoint an exceptional operational auditor. Reporting to the International Audit Director, the opportunity will span all business activities and provide exposure to the company's worldwide operations at the most senior management levels, with up to 75% international travel. Applicants can expect to work closely with their customers carrying out appraisals and analyses, conducting special investigations and establishing sound systems of internal controls. The department is acknowledged as an excellent entry point for an outstanding individual wishing to develop a varied career within a world class music company.

The successful candidate should be an internationally mobile graduate, aged between 25 and 30 years of age and have excellent personal qualities and strong commercial focus. Possessing a further accountancy or business qualification you should have demonstrated strong career progression to date, in either a Big 6 accountancy firm or similar Blue Chip multinational audit function. Applicants should feel comfortable working in a multi-cultural, international environment and additional language skills would be of great benefit.

The rewards include an attractive basic salary, together with a fully expensed car and other large company benefits.

Interested applicants should write, in the strictest confidence, to David Craig or Brian Hamill at Walker Hamill Executive Selection, forwarding a brief résumé quoting reference DC 3144.

WALKER HAMILL

103-105 Jermyn Street
St. James's
London SW1Y 6EE

Tel: 0171 839 4444
Fax: 0171 839 5857

Director of Audit

£100,000 Package + Car & Benefits

Seasoned professional required to lead internal audit function in major, high profile Group.

THE COMPANY

- Major provider of retail services. Annual turnover in excess of £1 billion.
- Annual capital investment in excess of £500 million of major products.

THE POSITION

- Responsible for wide-ranging internal audit programme across full spectrum of Group activities.
- Audit function covers Financial Audit, Operational Audit, IT Audit, Compliance and fraud.
- Lead department of 50 staff.
- Control significant budget.

QUALIFICATIONS

- Chartered Accountant. Major accountancy firm or top industrial background with demonstrable record of success. Thorough understanding of current audit techniques; committed to best practice.
- Broad experience in commercial environment with extensive board-level exposure.
- Excellent communication and leadership skills. Robust professional style, able to meet demands of high-profile organisation.

Please send full cv, stating salary, ref 458, to NBS Response Handling Division, Wellington House, Queensmere, Slough SL1 1DB

Fax 01753 608001 Email NBSResponse@nb-selection.co.uk Tel 01753 608350

Aberdeen • Birmingham • Bristol • City • Edinburgh • Glasgow — Leeds • London • Manchester • Slough • Madrid • Paris

NB Selection – London — NBS — Selection and Search

A BNB Resources plc company — ISO 9002 Registered

MICHELOB. BEER — Budweiser

Commercial Finance Opportunities

Anheuser-Busch Inc. is the largest brewer in the world with annual sales exceeding c.$13bn. In the UK Budweiser is the leading premium packaged lager supported by Michelob, Bud Ice, Roscoe's Red and the newly launched Michelob Golden Draft.

Anheuser-Busch European Trade Ltd (A-BET), the UK company, intends to continue its strong growth trends and commitment to customer focus through new product development, growing its sales force and increasing its multimillion pound advertising investment. To support this growth, A-BET is making the following appointments.

Financial Analyst

THE POSITION — **To £35,000 + Benefits**

- Manage the financial planning process for UK and subsequently Europe. Prepare and update long term strategic and financial plans, using budget and monthly rolling forecast. Report to Finance Director.
- Develop key performance indicators in support of rapid UK growth. Ensure incorporation of beer market trends and growing company product portfolio into planning process.
- Increase the application of financial planning in strategic decision making. Perform ad hoc financial analysis. Liaise extensively with operational management.

REF LG70413

Business Analyst

THE POSITION — **To £35,000 + Benefits**

- Deliver analytical support to sales and marketing in the UK, and subsequently the European markets, providing information on operational and brand performance. Report to Director, Business Analysis.
- Evaluate impact of promotional and advertising activity on revenue, margin and sales volumes. Assist in the ongoing development of pricing and brand strategy.
- Provide ad hoc analysis supporting new product launches, new packaging initiatives and potential business partnerships. Work closely with senior operational management.

REF LG70414-BA/F

QUALIFICATIONS

- Graduate. Recently qualified accountant or MBA. Experience of financial planning and analysis preferably gained in a Blue Chip FMCG company. Strong analytical ability coupled with sound commercial vision. Demonstrable record of achievement in career history.
- Excellent interpersonal skills. Proven written and verbal communicator with ability to negotiate and persuade both internally and externally.

Please send full cv, stating salary, quoting relevant reference, to NBS, 54 Jermyn Street, London SW1Y 6LX

Fax 0171 409 1786 Tel 0171 493 6392

Aberdeen • Birmingham • Bristol • City • Edinburgh • Glasgow — Leeds • London • Manchester • Slough • Madrid • Paris

NB Selection – London — NBS — Selection and Search

A BNB Resources plc company — ISO 9002 Registered

Venture Capital

Outstanding Career Opportunities

UK & Continental Europe — **Excellent Rewards**

With more than 20 offices located across Europe, our client has an outstanding and sustained record of performance, and a strategy for further growth both in the UK and overseas.

They now seek to recruit a number of high calibre professionals to work within close-knit teams, supporting acquisitions, start-ups and business growth opportunities.

Following extensive training, the key elements of your role will be finding and making new investments, managing a portfolio of existing business interests and marketing the company within the business community. You will handle a wide range of business relationships at any one time, evaluating proposals and business plans, structuring deals, negotiating and completing investments.

Probably in your mid 20s to early 30s, you will be a graduate, qualified accountant or MBA, with two to five years professional, consulting, or industrial experience gained in a blue-chip environment. Previous experience of a business development or client-facing role would be a distinct advantage as would fluency in more than one European language.

The role demands strong commercial acumen combined with the ability to build effective, long-term business relationships with the senior management of investee companies. To meet this challenge you will require first-rate analytical skills, drive, empathy and resilience.

This is an outstanding opportunity to build an investment career, whilst using your existing skills in a company with market leader status.

Please reply in confidence, enclosing a full curriculum vitae, current salary details and quoting reference B2006 to: Alexander Hughes Selection, 58 St. James's Street, London SW1A 1LD.

ALEXANDER HUGHES
SELECTION
A Company Member of the CPM Search International Network

HEAD OF INVESTMENT TRUST OPERATIONS

Premier Investment Company

One of the City's largest and most highly respected UK investment management companies is continuing the expansion of its investment trust operation.

You would be filling a new post as Head of Operations which will bring together the accounting and company secretarial services to support the expansion. Key tasks will be establishing personal credibility with the trusts' Boards, managing the increasing volume of company business and fundamentally reviewing administration and accounting systems.

Experienced Chartered Accountant

If not with directly relevant experience in the investment trust industry you must be a Chartered Accountant used to operating at plc board level, with some experience of investment trust companies. Age 30-50.

Please write in confidence, giving full details of your experience, to Terence Hart Dyke, consultant to the company, at BDC Search, 63 Mansell Street, London E1 8AN.

SEARCH

هكذا من الأصل

HEAD OF GLOBAL GRADUATE RECRUITMENT

MAJOR INTERNATIONAL INVESTMENT BANK

CITY + INTERNATIONAL TRAVEL — **SUBSTANTIAL INVESTMENT BANKING PACKAGE**

- New role with a major player created to spearhead a new business vision. Ambitious business intent on enhancing its already strong regional presence and creating a truly world-class global capability through organic growth, acquisitions and strategic alliances.
- Director level appointment. Pivotal ground floor opportunity. Key member of a recently formed team of investment banking and HR professionals, intent on establishing a world-class development culture. Role is at the cutting edge of OD – change and regeneration are high business priorities.
- Determine strategic and tactical objectives to ensure the organisation attracts and retains the very best graduate and MBA talent across its world-wide operations. Set the standards, co-ordinate and manage all aspects of global graduate recruitment within a matrix environment. Develop positive relationships at the highest levels with the academic community.
- Graduate. Likely to be an investment banker seeking to broaden their skill set or HR professionals/consultants with substantial resourcing experience. Must be truly business orientated and international in outlook.
- Able to operate effectively within a fast-moving, dynamic and non-homogeneous cultural environment. Team player, hungry for success and excited by challenge of building global capability. Adaptable and flexible, but with a firm personal style.
- Well honed conceptual thinking skills with proven ability to deliver. Strong organisational and project management capabilities. Well developed influencing and networking skills. Excellent career prospects.

Please apply in writing quoting reference 1398FT
with full career and salary details to:
Phil Bainbridge
Whitehead Selection
11 Hill Street, London W1X 8BB
Tel: 0171 290 2043
http://www.gbnet.co.uk/whitehead

Whitehead SELECTION
A division of Whitehead Mann Ltd, a Whitehead Mann Group PLC company

GROUP FINANCIAL CONTROLLER

"PEOPLE NEED TO HAVE THE PASSION TO WIN, THE ABILITY TO INITIATE CHANGE AND A FEAR OF COMPLACENCY" - JOHN MORGAN, CHIEF EXECUTIVE, MORGAN SINDALL PLC.

LONDON — **c. £65,000 + BONUS + BENEFITS**

- Morgan Sindall is a £350m turnover specialist construction group. Established market presence as one of the top fit out companies and leading regional building contractors with seven highly regarded brands. Impressive growth achieved through organic development and acquisitions, supported by a strong balance sheet.
- Morgan Sindall's success reflects its customer focus, empowered and decentralised management style, and emphasis on people development, within the context of commercial and rigorous financial management.
- Challenging opportunity to act as a right hand person to the recently appointed Finance Director. In addition to reporting, budgeting and treasury responsibilities, significant scope to make a major commercial and strategic input to the development of the group. Considerable integration with high calibre executive team.
- Graduate qualified accountant, probably aged late 30's to 40's. Established record of achievement at senior level in a quoted plc environment, where finance actively contributes to broader commercial decisions. Must have a distinctly commercial outlook allied to well honed technical accounting skills.
- Outgoing manner with excellent communication skills, capable of quickly gaining credibility, particularly with non-financial senior management. Energetic, resilient and good under pressure. Comfortable working in a relatively informal, non-hierarchical and team orientated business environment.
- Able to contribute to the development of a strong "best practice" finance function, which supports rather than constrains exceptional business performance.

MORGAN SINDALL

Please apply in writing quoting reference 2463
with full career and salary details to:
Katie Thomas
Whitehead Selection
11 Hill Street, London W1X 8BB
Tel: 0171 290 2043
http://www.gbnet.co.uk/whitehead

Whitehead SELECTION
A division of Whitehead Mann Ltd, a Whitehead Mann Group PLC company

REGIONAL HEADS OF FINANCE
KEY CHANGE AGENTS

MAJOR SERVICE SECTOR PLC
c£50,000, CAR, ATTRACTIVE BENEFITS PACKAGE

LONDON (REF: FT11006) — **SCOTLAND (REF:FT11007)**

An ongoing programme of progressive and far reaching change has created exceptional opportunities within this £multi-billion services organisation. A re-strategising of the objectives, procedures and systems of the business is now underway, which demands the application of tighter financial management control systems and the development of a more commercially orientated culture.

The organisation is managed on a national and regional basis and the Head of Finance carries full financial management responsibility for an entire operating region, itself a substantial business. In addition, this key, senior role is an integral member of the executive management team.

Candidates should be qualified accountants, with a proven aptitude in progressive culture change that has been applied in a major Plc. A fresh commercial outlook and high degree of computer literacy will be required, in addition to a strong and involved leadership style. Beyond this initial challenge, career prospects are truly outstanding.

Please send a CV to Martin Boyle at Howgate Sable & Partners, Lawns House, Lawns Lane, Leeds LS12 5EY. Tel: 0113-279 9000, Fax: 0113-279 9999, quoting the appropriate reference number. *Visit our web site at http://www.topjobs.co.uk/howgate*

Howgate Sable
& PARTNERS
EXECUTIVE SEARCH AND SELECTION

London · Manchester · Leeds · Newcastle

FINANCIAL FLY HIGHERS - SPREAD YOUR WINGS!

EXCITING OPPORTUNITIES IN INTERNATIONAL CORPORATE FINANCIAL MANAGEMENT

Our Client, an international leader in the thermal engineering market is totally committed to excellence in developing and managing £multi million capital projects. To extend the sophistication of their financial management still further, the following additional appointments are to be made:-

MANAGER: PLANNING & CONTROL
Package to £47k

The objectives:
- Appraise business investment opportunities and risks
- Tactical and strategic planning and methodology
- JV and partnership evaluation
- Establish internal systems and controls
- Facilitate the UK support of overseas operations
- Special investigations

The person:
- Must be a Chartered Accountant
- Ideally three years post qualification experience with exposure gained in a variety of unusually challenging assignments, relevant to the above objectives
- Be willing to travel internationally, sometimes to remote locations

GROUP ACCOUNTANT
Package to £38k

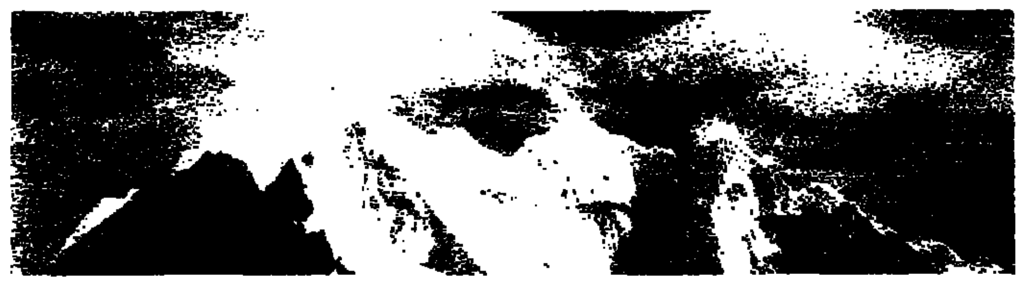
The objectives:
- Provide high quality financial performance information to the Board including support to the world-wide Business Units
- Plan and implement integrated accounting systems and procedures throughout the Group
- Develop your capabilities to progress to a high profile role to aid the winning of new business

The person:
- Ideally a part or fully qualified Chartered Accountant
- Depending on age and level of experience we would expect *exposure to some or all of the following: -consolidations* - statutory accounts - investigations - reports - taxation - - audits - special assignments - IT systems review

Both the appointments are in the Home Counties and offer unrivalled opportunity for dynamic career development within the Group. Relocation allowances will be paid on an individual basis. Please send your CV, which should clearly illustrate your suitability for the position in which you are interested, to: **Christopher Doane, TEK Executive Search and Selection, Balls Square, Trippet Lane, Sheffield, S1 2FY.**

TEK EXECUTIVE SEARCH

Another typical head of finance job. You look out of the office window and all you see is skyscrapers.



c.£80,000 + significant bonus — French Alps

Bright light, fast action - and no big city, could this be the most beautifully unspoiled job in international finance?

A premier French manufacturer of sports, leisure and protective eyewear we have $50 million sales in 25 countries. Family owned and managed until recently we have been acquired by a fast-growing US group with an enviable record of worldwide business development.

The Head of Finance and Administration will provide the link between the French management and the new US owners. This will involve setting up, from scratch, systems for international compliance, accounting and management reporting.

The position is based, not inappropriately a couple of black runs from Mont Blanc in Oyonnax, Rhone Alpes. Not your typical milieu but then you're not the typical type.

Instead you're a qualified finance professional with a strong background in accounting and management reporting, a good grasp of US GAAP or international standards and ideally, experience of small manufacturing environments. You're also fluent in French with a diplomatic style and an unforced interest in sport.

In which case, you're probably thinking that this opportunity - with the freedom to set up your ideal systems, the prospects of an international group and a room with a view and a half - is too good to be true.

Stop pinching yourself. Call our advising consultant, David Hunter for a snow report - sorry, an initial discussion - on 0171 939 3661 or write to him, quoting reference L/1764/FT at the address below.

Executive Search & Selection
Price Waterhouse Management Consulting Ltd
Southwark Towers
32 London Bridge Street
London SE1 9SY
Fax: 0171 378 0647
E-mail: David_Hunter@Europe.notes.pw.com

Price Waterhouse
EXECUTIVE SEARCH & SELECTION

For flexibility. Reactivity. For strength.

Join BIP
SENIOR ECONOMIST

Within the Dresdner Bank Group, BIP concentrates on the key areas of arbitrage and financial engineering. We have a reputation for technical excellence, for innovation, and for operational flexibility, and we are established in all the world's major financial centres. We offer our associates a rich and rewarding experience within an environment that encourages creativity, responsibility and teamwork. Our Asset Management Company, BIP Gestion, a pioneer of quantitative asset management techniques in France, is currently recruiting a senior economist.

You will be responsible for producing a wide range of global macro-economic analyses. The work will cover both the short and the long term, principally on the main markets but also on emerging markets. Responsibilities will include producing forcasts of macro-economic as well as market variables and actively participating in the development of investment strategies.

You will be expected to publish articles on various aspects of macro-economics and strategy in the many publications of the Group (BIP, Dresdner, Kleinwort Benson). You will also assist the bank's executives with client presentations and bring your *expertise to financial management* committees. You will need a first-class academic record - eg a degree in engineering or statistics plus an MBA, or a graduate degree in finance or economics - together with at least three years relevant experience. Fluent written and spoken English and French is important. You should also be at ease with office technology; advanced computer skills would be an advantage. Personal stengths will include determination and precision, good team spirit, excellent writing skills, and business acumen.

Please send your application (handwritten letter + CV) to Banque Internationale de Placement, Direction des Ressources Humaines, 108 boulevard Haussmann, 75008 Paris, France, on the reference SETE.

Banque Internationale de Placement
Dresdner Bank Group

European Investment Bank
A career in the heart of Europe

The **EIB**, the financial institution of the European Union, with a yearly lending programme of some 20 billion ECU and its parallel borrowing programme, is currently seeking for the headquarters in **Luxembourg** a (m/f):

Internal Auditor

to work within a small, multi-disciplinary and multi-national team reporting directly to the Management Committee and to carry out a full range of compliance and operational audits in accounting, treasury, capital markets, information technology, lending, personnel and general administrative activities.

A short term or permanent appointment would be considered.

Qualifications: University degree in economics, business administration or equivalent and professional qualification as chartered accountant or independent auditor.

Professional experience: At least 6 years as external or internal auditor with banking and computer audit experience.

Requirements: Conversant with the use of a PC and data interrogation languages. Capable of a rigorous, analytical apprach, with an ability to produce results, to work independently and initiate ideas. Good communication skills and aptitude for report writing are required.

Languages: Perfect knowledge of **English** or **French** and a good command of the other. Knowledge of German or any other European Union language would be an advantage.

The EIB offers attractive terms of employment and salary with a wide range of welfare benefits. Applications from **women** would be particularly welcome.

Applicants, who must be nationals of a Member Country of the European Union, are invited to send their curriculum vitae, in **English or French**, together with a letter and photograph, **quoting the appropriate reference**, to:

EUROPEAN INVESTMENT BANK, Recruitment Division, Ref. AIA 9701
L-2950 LUXEMBOURG. Fax: +352 4379 2545.
(http://www.eib.org)

Applications will be treated in the strictest confidence and will not be returned.

Is your career moving fast enough?

London-based

One of the world's largest and most successful financial services companies, GE Capital is a high-performing part of GE's $79 billion global enterprise. Its 19 European niche businesses - ranging from credit cards to equity capital, aircraft leasing to real estate - set and regularly exceed ambitious growth targets, employing 15,000 people and acquiring on average one European company every fortnight in the past two years.

European Equipment Finance (EEF), one of GE Capital's fastest-growing European businesses, provides one-stop global finance solutions to help manufacturers, distributors and end-users to grow their businesses profitably. A leading player, EEF has made seven acquisitions in four countries since 1993, increasing its business tenfold overall, and is pursuing further expansion.

Constantly seeking growth and added value, EEF requires three business professionals to play a highly commercial part in business success. Using monthly results as a starting point, you will identify issues which have a real impact on productivity and profitability. Working with country Finance Directors and business leaders, you will generate ideas for improved business performance, taking a pro-active role in their execution and participating in the integration of acquisitions.

A high degree of self-motivation, an international mindset and the confidence to initiate and drive change are essential, with the ability to work under pressure and meet challenging deadlines. A recognised accounting qualification or relevant business degree will be important, together with 5-8 years' broad-based business experience and a good knowledge of English and another European language. Key attributes are strong leadership and communication skills, European experience and the adaptability to work outside conventional boundaries.

GE's commitment to personal growth provides a constant process of development tailored to individual needs. These positions offer an exceptional opportunity for talented, ambitious individuals to develop an international career anywhere within GE's global environment.

Interested applicants should fax or send their CV quoting current salary details and ref: 213 to our retained consultants, Alderwick Consulting, 95 Fetter Lane, London EC4A 1EP. Fax (+44) 171 242 3560. For more information, please phone (+44) 171 242 9191 (weekdays) or (+44) 181 467 1408 or (+44) 966 119056 (evenings and weekends). Any applications sent to GE direct will be forwarded to Alderwick Consulting.

GE is an equal opportunity employer

**Not connected with the English company of a similar name.*

USA*

GE Capital

European Equipment Finance

FINANCE DIRECTOR

Full/Part Time

Based in Surrey

Quoted (full) property investment and development company - energetic and established team with ambitious plans.

The candidate will be a qualified accountant with experience in all aspects of quoted company accounting and secretarial matters.

Ideally suited to a recently retired Finance Director.

Please reply to:

The Chairman,

56 Station Road, Egham, Surrey TW20 9LF

Significant Opportunity for a Financial Professional

Finance Director

Wiesbaden **DM 120,000 + Bonus**

Our client is an American based financial services company, with a successful track record in computer leasing. Their newly acquired German operation has been well established for the last 10 years in the German market. Based at their offices in Wiesbaden, the need for improved financial control has led to the following position.

QUALIFICATIONS

- Either a graduate, with a degree in business economics and/or qualified accountant; international qualification desirable.
- Four to six years relevant post qualification experience in finance and administration gained in a computer/leasing environment (preferably within financial services).
- Fluency in both English and German.
- Flexible and open personality, team player, ability to work under pressure.
- Excellent PC/EDP knowledge.

THE ROLE

- Responsibility for all reporting (legal entity and US GAAP; MIS).
- Implementation of financial planning, analysis and control.
- Introduction of internal controls, including policies and procedures.
- Handling of all other administrative matters (insurances, contracts, personnel, etc).
- Support salesforce with all operational and strategic financial information.
- Liaising with all external advisors (banks, auditors, tax, legal etc).

We are looking for young and ambitious candidates who are looking for their next successful step in their career and beyond. In addition to solid technical skills and a 'hands-on' approach, the ideal candidate clearly should have commercial direction and the potential and ambition to quickly grow into a more commercially focused, general management position within a small but highly professional, very successful company.

Interested applicants should forward their curriculum vitae, quoting reference CS/32606 to Christian Schreiter, Michael Page Deutschland GmbH, Mainzer Landstraße 39, D60329 Frankfurt.

MP

Michael Page International

International Recruitment Consultants

London Paris Amsterdam Dusseldorf Frankfurt Madrid Hong Kong Singapore Sydney Melbourne

Raise your profile with a growing force in engineering systems manufacture

FINANCIAL DIRECTOR

c£35k + car + 30% bonus · North West

With a flawless reputation for engineering excellence and a prestigious portfolio of customers throughout the UK, Europe and the Middle East, this US-owned Company is on target to virtually double recent turnover to £10 million through planned strategic growth.

Designed to strengthen the senior management team at a crucial stage of development, this important appointment carries broad responsibility for safeguarding the company's finances and paving the way for further swift, profitable expansion. As well as producing timely, accurate business information, preparing forecasts and maintaining tight credit control across diverse export markets, you will take a significant lead in refining existing systems and scrutinising current operating performance in order to enhance results on a visible scale.

A successful track record as a Financial Director/Controller is essential, ideally gained in an operating company within the context of a PLC noted for tight financial control. Knowledge of manufacturing, preferably encompassing both engineering and contracting, is also a prime pre-requisite, supported by substantial experience of credit control comprising export documentation and foreign currency involvement. A recognised management accountancy qualification and proficient PC skills (*Quattro Pro, Lotus and WordPerfect*) are essential.

Beyond this, you will be ambitious, profit-oriented and relish the prospect of exercising personal 'hands on' control and focusing directly on key financial issues within a streamlined culture, where ancillary support staff and administrative routines are deliberately kept to a minimum. This is a prominent, front-line role which includes direct negotiation with banking and other service providers, so you must demonstrate confident communication and relationship-building skills to succeed.

The attractive package includes a generous bonus scheme, fully expensed car and free private health insurance. This position would ideally suit candidates based in the North West.

Please send a full career history to Sue Skidmore, Howe International Recruitment, Shirley Lodge, 470 London Road, Langley, Berkshire SL3 8QY. Tel: 01753 710499. Fax: 01753 540990.

HOWE INTERNATIONAL RECRUITMENT

EUROPEAN TAX MANAGER

BARCELONA **EXCELLENT REMUNERATION PACKAGE**

Our client is a US multinational with operations worldwide. Its activities include among other things (micro)electronics, nuclear energy, communication and medical and household appliances. The group has a turnover of approximately $80 billion and employs 220,000 people.

One of its key businesses, market leader in its field, offers a wide scope of products to meet a broad range of electrical distribution and control needs for customers all over the world. With 14 manufacturing facilities, the European operation employs 6,000 people. Due to recent growth, both organic and as a result of strategic acquisitions, they are now seeking to recruit a European Tax Manager to strengthen the tax function at their European Head Office.

Reporting to the CFO and General Counsel, your main responsibilities will be:

- Developing and implementing (inter)national tax planning and compliance in a strong expanding multinational environment
- Playing an active role in group finance initiatives by establishing tax efficient funding structures
- Assisting in due diligence reviews in connection with tax structuring for mergers and acquisitions
- Assisting the European subsidiaries with tax issues
- Maintaining external contacts (tax advisors, Inland Revenue, lawyers etc.).

For this most attractive opportunity it is envisaged that the successful candidate will be a university graduate (tax law/economics) with at least eight years experience gained working for one of the 'Big Six' and/or a leading (US) multinational organisation.

Furthermore he/she should be highly commercial in outlook with a drive and tenacity to succeed in a stimulating and strong growing environment. The business language is English, but the successful applicant will be fluent in one or more other European languages. International travel will be required.

Future career opportunities are excellent for the right candidate, either within Europe or internationally.

If you are interested in this opportunity, please contact **Maurits Claassen** on **(+3120) 6444 655**, or alternatively send your curriculum vitae to the following address: **Robert Walters Associates, 'Rivierstaete', Amsteldijk 166, 1079 LH, Amsterdam, The Netherlands.**

Fax (+3120) 642 9005. Email: maurits.claassen@robertwalters.com

ROBERT WALTERS ASSOCIATES

FS30091

L O N D O N   W I N D S O R   A M S T E R D A M   B R U S S E L S   N E W   Y O R K   H O N G   K O N G   S Y D N E Y   W E L L I N G T O N   A U C K L A N D

EUROPEAN INTERNAL AUDIT DIRECTOR

THAMES VALLEY **C. £55,000 + BONUS + BENEFITS**

This $3 billion turnover Fortune 500 company has operations in over 33 countries worldwide, employing in excess of 15,000 people. The market leader, it has an impressive record to date and is ideally positioned to take advantage of new markets.

As a direct result of recent initiatives this key role has materialised. Reporting to the USA based VP Audit, this critical role will assume responsibility for the European Audit function.

A proactive and commercially orientated role, the successful individual can anticipate a wide ranging and influential position. Specific responsibilities will include:

- Management motivation and co-operation of a team of five professional staff
- Special Projects to include acquisition reviews and due diligence assignments
- Focusing operational and senior management on business improvement and profit enhancement issues

Candidates will be aged 30-35, qualified ACA's with strong communication skills. The ability to influence and effect change is essential. A background of achievement gained either within an International Accounting practice at Managerial Level or from within an existing operational audit function would prove advantageous.

This role is viewed internally as a springboard to a senior role within the group.

For further information, please contact **Giles Daubeney** at **Robert Walters Associates, 10 Bedford Street, London, WC2E 9HE.** Tel: +44 171 379 3333, Fax: +44 171 915 8730. E-mail: susanna.kelly@robertwalters.com

ROBERT WALTERS ASSOCIATES

FS30091

L O N D O N   W I N D S O R   A M S T E R D A M   B R U S S E L S   N E W   Y O R K   H O N G   K O N G   S Y D N E Y   W E L L I N G T O N   A U C K L A N D

Outstanding Career Opportunities with a Global Investment Bank

Hong Kong **HK$1.4 to $2 million Packages**

Our client has built an enviable reputation as a leading global investment bank in Asia and around the world. With its regional headquarters based in Hong Kong, continuing expansion and business development in the region has created outstanding career opportunities for pro-active professionals.

VP, Financial Reporting

Reporting to the Financial Controller of Asia Pacific, your primary responsibility will be to guide a team of finance executives in regional financial and statutory reporting. You will be responsible for all aspects of the day-to-day accounting, reporting and compliance with generally accepted accounting principles.

A qualified accountant with 8-10 years experience gained in an international environment, it is critical that you display an appreciation for detail. You should be technically and analytically strong and knowledge of Asian equities, fixed income and derivative products would be a distinct advantage though not essential. As this is a hands-on managerial role requiring liaison with other offices around the world, you must demonstrate a sense of maturity, independence and possess strong communication skills. Confident and presentable, you are accustomed to dealing with people at all levels and should possess the commitment to be part of the senior management.

VP, Management Information

The production of timely, accurate and relevant information is critical to the decision making processes within a global investment bank. As the VP of Management Information, you will lead in the continuing development and management of an information systems to provide timely financial, operational and market data for senior management, both regionally and globally. You will work with other business functions to identify their information needs on an on-going basis in addition to managing the budgeting and expense review processes and performing business analysis for projects and new ventures.

Degree qualified, preferably in accounting/finance with a minimum of eight years experience, you should be a hands-on problem solver and have a flair for creative solutions. Good business sense, together with a strong customer orientation and PC skills are essential. As this role requires extensive interaction with all levels of management, you must also possess exceptional interpersonal and communication skills.

If you are looking for a challenging role in a dynamic environment, please fax a comprehensive CV including contact numbers to Hugh Everard or Michelle Ho (quoting ref HE107) on 00 852 2530 2255 or telephone them on 00 852 2530 2000 at Michael Page Finance, 601 One Pacific Place, 88 Queensway, Hong Kong.

Michael Page International
International Recruitment Consultants
London Paris Amsterdam Dusseldorf Frankfurt Madrid Hong Kong Singapore Sydney Melbourne

---

urenco

Group Project Accountant

Buckinghamshire **£ Competitive package**

Urenco Ltd is a privately owned group of companies, turning over £300 million and operating in the UK, Holland and Germany. The Group's principal activity is providing a uranium enrichment service for public utilities. Since the Group was restructured in 1993, they have distinguished themselves in the uranium enrichment marketplace by maintaining a commitment to technological development and customer service. Currently employing 1500 people, they have strong growth plans to take them well beyond the year 2000. As a result of this growth, they now seek a Group Project Accountant to strengthen the commercial finance team. Reporting to the Group Financial Controller, you will be responsible for:

- Assisting in the group planning and strategy cycle.
- Investment appraisal and financing of major plant expansions.
- Commercial projects throughout the European subsidiaries.
- Group treasury activity in support of the Group Treasurer.
- Group level statutory and management reporting.

The successful candidate will be a graduate calibre qualified accountant with up to two years post qualified experience. You will need to have excellent interpersonal and communication skills as you will liaise extensively with senior commercial managers across Europe. You will also need to display strong technical skills and the ability to work unsupervised. This role requires a self-starter with ambitions to develop the commercial aspects of the role. European travel is a feature of the position.

Interested candidates should forward a comprehensive curriculum vitae, including details of current salary and daytime telephone number, quoting reference 346728, to Peter Istead, Michael Page Finance, 40-42 High Street, Maidenhead, Berkshire SL6 1QE or alternatively fax him on 01628 785495.

Michael Page Finance
Specialists in Financial Recruitment
London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
Maidenhead Manchester Milton Keynes Nottingham Reading St Albans & Worldwide

---

International Financial Controller

C London **c £50,000 + Car + Bens**

Our client is an autonomous subsidiary of a top 100 UK Plc. With a turnover this year of over £200 million, this high profile media business is investing heavily in the continuing development of this renowned brand. A key focus for the company will be increasing their presence in the international arena. This is a challenging period of growth and internal restructuring to meet the changing demands of the group.

This newly created role will report to the Finance Director and combines both line management and project responsibilities. The following tasks will be key:

- Managing a team of five finance managers based in the existing overseas operations including regular visits to those offices.
- Improving communication and information flow to line management to assist in commercial decision making.
- Assisting in the smooth transition to a fundamentally redesigned financial processing operation.
- Involvement in the implementation of new Information Technology systems for consolidated and management reporting.

Priority will be given on a demonstrable record of success in a commercial high change environment and an assertive, task orientated approach to problem solving. The individual must therefore be keen to take responsibility for issues and drive them to conclusion. It is likely the person we require will be an ambitious individual in their early or mid 30s with the desire to progress rapidly into a Directorial role within the group.

Interested applicants should apply in writing quoting job reference 349148 to Guy Stacey, Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH.

Michael Page Finance
Specialists in Financial Recruitment
London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
Maidenhead Manchester Milton Keynes Nottingham Reading St Albans & Worldwide

---

Group Financial Controller

Newly Created Position

Central London **£45-50,000 + Car + Benefits**

Our client has evolved from its origins in the 1950's to become one of the largest property and financial services companies in the world with a turnover of AUD$ 2 billion. Headquartered in Sydney, it has regional offices in South East Asia, Australasia, America and London.

In recent years it has entered the European arena and now has an enviable portfolio of property development/management projects with tremendous potential for further growth. This newly created challenging position represents an excellent opportunity for an accountant of the highest calibre.

Reporting directly to the Chief Financial Officer and interfacing with senior management, you will be responsible for the provision of high quality technical and commercial support on all European group financial matters. Responsibilities will include the full range of accounting duties comprising statutory and management reporting, overseeing the treasury operations and tax planning process, assistance with acquisitions and divestments and the supervision of a small, highly skilled finance team.

Prospective candidates must be graduate calibre, qualified accountants with a proven track record at a senior level within a commercial environment. Exceptional interpersonal skills combined with an energetic, 'hands-on' approach are essential.

Interested applicants should forward a comprehensive curriculum vitae, including salary details and daytime telephone number, quoting reference 348149 to Richard Letcher at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH or by fax: 0171 831 2612.

Michael Page Finance
Specialists in Financial Recruitment
London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
Maidenhead Manchester Milton Keynes Nottingham Reading St Albans & Worldwide

---

Finance Director

North Lincolnshire **£35,000 + F/X Car + Bonus + Potential Equity Holding**

Our client is a privately owned business with current turnover of around £5 million. They specialise in the design, manufacture and distribution of electrical components predominantly to UK based OEM's but also export to North America.

Currently enjoying strong growth, they consequently seek to appoint a high calibre Finance Director to the Board of Directors. Reporting directly to the Managing Director, key responsibilities will include:

- Responsibility for effective Financial Control over the business.
- Liaison with the company's Venture Capitalists, Bankers and Lawyers.
- Management, development, training and motivation of the finance team.
- Management of all the financial reporting as well as company secretarial duties.
- Detailed investigative work, relating particularly to the company's costs of sales and production.
- Management and development of IT strategy and systems for the business.

Candidates will be ambitious qualified accountants in their early 30's with a real desire to succeed, of graduate calibre with excellent interpersonal, communication and leadership skills. You will be 'hands on', highly commercial and possess a proven track record of achievement in ideally a blue-chip manufacturing background. Experience of product and job costing as well as manufacturing systems is essential.

This assignment is being handled exclusively by Michael Page Finance.

If you feel you have the necessary skills and experience, please send a comprehensive curriculum vitae, including current salary details to James Newman, Regional Manager, Michael Page Finance, Leigh House, 28-32 St Pauls Street, Leeds LS1 2PX quoting reference 347225 or telephone him on 0113 246 9155.

Michael Page Finance
Specialists in Financial Recruitment
London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
Maidenhead Manchester Milton Keynes Nottingham Reading St Albans & Worldwide

---

FINANCE MANAGER

A TEAM LEADER WHO THRIVES ON CHANGE

Kimberly-Clark is renowned all over the world for such high-quality consumer products as ANDREX* toilet tissues, KLEENEX* facial tissues, KOTEX* feminine care and HUGGIES* disposable nappies. Our success is based not only on the quality of our products and the excellence of our staff, but also on our commitment to be the best; a proactive approach we expect all our managers to share. No more so than in this key financial operations role.

Leading and developing a well-established finance team, you will be responsible for controlling financial accounting systems, providing timely and accurate financial reporting and analysis, and identifying and recommending cost performance improvements to Mill Management.

To fit in quickly and implement improvements successfully, you will have at least 5 years' post-qualification experience, including a high degree of cost-accounting expertise and team leading responsibilities within an engineering, production or manufacturing environment. A first-class communicator, you must also possess self-confidence, integrity and professionalism. The individual should also be equally comfortable in a team leading environment.

The remuneration package will reflect both your experience and the importance we attach to the role and the large company benefits on offer will include generous relocation allowances and a fully-expensed car.

c.£38,000
+ Bonus
+ Relocation
+ Fully Expensed Car

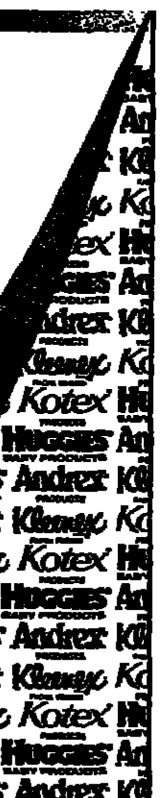
Larkfield, Kent

FSS FINANCIAL — AN FSS GROUP COMPANY

For a confidential discussion, please call John Copeland, quoting ref: FT0103, on 0171 209 1000 or write to him at FSS Financial, Charlotte House, 14 Windmill Street, London W1P 2DY. Fax: 0171 209 0001. e-mail: jc@fss.co.uk

Kimberly-Clark is an Equal Opportunities Employer.
*KLEENEX, KOTEX and HUGGIES are trademarks of Kimberly-Clark Corp.
*ANDREX is a trademark of Kimberly-Clark Ltd.

Kimberly-Clark Europe



FT FINANCIAL TIMES
Les Echos — Le Quotidien de l'Économie
FINANCIAL TIMES

The FT can help you reach additional business readers in France. Our link with the French business newspaper, Les Echos, gives you a unique recruitment advertising opportunity to capitalise on the FT's European readership and to further target the French business world. For information on rates and further details please telephone:
Toby Finden-Crofts
on +44 171 873 4027

IT Appointments

EUROPEAN INVESTMENT BANK

GLOBAL EQUITIES

ORACLE EXPRESS/OLAP SPECIALIST

COMPETITIVE SALARY + BANKING BENEFITS

Our client is a leading European investment bank, operating in 60 countries. It offers a full range of activities including Equity, Fixed Income, M&A, Corporate Banking, Asset Management and Securities Services. It is committed to the further expansion of its equity business and, integral to this, has been the development of a comprehensive European equities database.

There is an opportunity for an experience Application Developer, with a genuine interest in Oracle Express OLAP products, to join this team. The role is to design and implement data structures and also deliver robust solutions to meet the needs of clients and internal users.

- **The essential requirement for this position is substantial experience of developing Oracle Express applications for complex data structures.**
- **This role would suit a highly numerate individual with a good degree and the ability to communicate ideas clearly and concisely.**
- **As a member of a small, focused group, the candidate must be a team player who is able to work on their own initiative and take responsibility for all technical aspects of the project.**
- **Although a financial background is not a pre-requisite, the candidate will need to appreciate the demands and pressures of working in the financial sector**

This is a rare and outstanding opportunity for an expert in Oracle Express to apply their skills in a challenging environment. The excellent remuneration package will be based on technical ability and achievements. The candidate will have the scope to make a significant contribution to the development of this project whilst gaining an understanding of the equity markets.

If you are interested in the above positions, please contact either Louise Williams or Eleanor Collins

H[redacted]y
INVESTMENT BANKING
17 St Helens Place, London EC3A 6DE

Tel: 0171 335 0005
Mobile: 0973 317 330
Fax: 0171 335 0008
Email: jobs@huxley.co.uk

Exceptional Investment Banking Opportunity

IT Projects Manager

City **Excellent Package**

Our client is the highly successful investment banking arm of a leading international merchant bank which specialises in emerging markets.

Due to increasingly rapid growth, an opportunity has arisen to lead IT development. Working closely with technical and business managers within this challenging environment, you will be responsible for delivering high quality solutions across multifaceted projects worldwide.

Specific responsibilities will include:
- Proactive application of IT through design, implementation and support of creative solutions.
- Provide a rapid and effective response to the growing demands of the business.
- Lead key implementation and enhancement projects.

Prospective candidates will be of graduate calibre, probably aged late 20's early 30's, with the energy, enthusiasm and commitment necessary to succeed within a highly commercial environment. Probably already working in the financial services sector, you will have expertise in the latest technologies including file servers, LAN, Windows NT, Lotus Notes and telecommunications.

In return, you are offered a unique opportunity to work within a dynamic environment where entrepreneurial flair, industry and creativity are highly rewarded. This is a key appointment where IT is integral to keeping their competitive edge. As a result, salary will not be an obstacle in recruiting.

Interested candidates should write including current salary details to Louisa Perry Michael Page Technology, 39-41 Parker Street, London WC2B 5LH, fax 0171 831 7182. Alternatively via E-mail caroline@michaelpage.com or via the Internet on http://taps.com/Michael_Page quoting reference 340427.

MP
Michael Page Technology
Specialist Recruitment Consultants

http://taps.com on line

Accounting for the Square Mile...
...and Beyond

Our client has a long-established history in global investment banking with an extensive network of operations in Europe, Middle East, Far East, Africa and USA. Key areas of expertise include risk management, derivatives and corporate finance. Such has been the growth in these areas that excellent career prospects are now on offer to talented individuals who are able to fill the positions opposite.

Head of Treasury Audit — £65,000 + Package

An experienced treasury auditor is required to set up a risk-based treasury and capital markets audit function. Ideally you'll be an ACT or qualified accountant (ACA, CIMA, or ACCA). Your 4-5 years audit experience would have exposed you to risk based auditing and its application to on and off exchange traded products, eg: FX options, repos., forwards, swaps and associated interest rate products. Up to 20% foreign travel. Ref: FT/DJ/859/05/97

Treasury Product Control Manager — £60,000 + Package

An ACA, ACCA or CIMA accountant is required to head a team within our treasury products division. Responsible for product, financial and regulatory control, you will be putting your excellent interpersonal skills and product knowledge to good effect. Naturally, you'll be conversant with investment banking products, to include: money market and FX, derivatives (vanilla & exotic) and various forms of negotiable paper. You will be expected to review the efficiency of accounting operations and implement computer solutions – liaising with systems developers as necessary. Ref: FT/DJ/879/05/97

Senior Systems Auditor — to £55K Package

The successful candidate, will have proven their ability to lead and inspire others as well as being a genuine self-starter, with sound exposure to good project management practice, the full development life cycle and structured methodologies. You will be expected to plan your own audits and those of others. Work involves all types of information systems reviews, however you will have a particular focus on Treasury and Capital Markets. Ref: FT/DJ/847/05/97

For a detailed discussion regarding these positions please contact Delly James on 0171 236 4288 quoting the reference number.

1 Groveland Court, Bow Lane, London EC4M 9EH
Tel: 0171 236 4288 Fax: 0171 236 4277
E-mail: info@citielite.co.uk http://www.citielite.co.uk

parallel INTERNATIONAL
A MEMBER OF THE LNI GROUP

IT Management Consultants

London SW1 **1 to 3 years experience** **£ excellent**

Parkwell is a well established, independent firm of management consultants. Our key areas of expertise are the selection and implementation of systems and the management of information technology projects.

Our continued success and rapid expansion has been achieved by combining a high level of expertise with a strong commitment to quality of service. Increased demand for our services and ambitious plans for 1997 means that we are now looking to recruit two additional consultants.

Our clients include most of the large European investment banks and a broad range of electronic media, printing and publishing companies.

It is essential that you have already gained experience in a respected and well known IT consultancy and some knowledge of the financial services industry is desirable. We also require you to be self motivated, confident and an excellent team member. You should have first class communication skills.

Parkwell provides a young, dynamic and expanding environment that is challenging yet supportive in its management style. We reward initiative, recognise effort and are clearly focused on the development of all our staff.

The salary package is negotiable and our bonus scheme is amongst the best in the sector.

Interested applicants should contact Andrew Fisher at Parkwell Management Consultants, 8 Wilfred Street, Westminster, SW1E 6PL. Tel: 0171 630 8000 (Home: 0181 220 5078) Fax: 0171 233 5205. Email: 100752.3606@Compuserve.com

PARKWELL

For further information on the FTIT section please call Courtney Anderson on +44 (0) 171 873 4095

EXCEPTIONAL OPPORTUNITIES IN ELECTRONIC PUBLISHING

Our Client is a well established publisher of electronically-delivered training and reference products for the international financial marketplace. With head-quarters in Dublin and operations in London and New York, it has a leading edge product-line with an international 'blue-chip' customer base. It is embarking upon an ambitious 3 year strategy to dramatically grow a number of business and consumer publishing niches using Inter/Intranet delivery platforms.

We have been retained to assist in the recruitment of additional senior management, based in Dublin, to deliver its aggressive growth strategy. These positions will appeal to innovative, entrepreneurial professionals. An attractive remuneration package and participation in the business success will be an important feature.

CEO DESIGNATE – US BASED

This individual will provide the vision and leadership necessary to realise the organisation's potential. He/She must possess the ability to anticipate key business trends and be capable of positioning the organisation to capitalise on opportunities. An excellent motivator, with a proven record as an innovative entrepreneur, he/she must be prepared to relocate to New York within the year. *Ref: 5483C*

TECHNOLOGY DIRECTOR

The role will entail identifying optimal technical direction at strategic level and at operational level, developing and managing software development capability. As a technical trend-spotter with strong commercial acumen he/she will also have extensive software project management experience. Excellent people management, organisational and communication skills are essential. *Ref: 5484C*

INTERNATIONAL MARKETING DIRECTOR

The successful candidate will be a strategic thinker with responsibility for developing and implementing international marketing and sales strategies via a range of direct and indirect channels. He/She will also provide key input to product development strategy and ideally possess 3 years' international marketing experience to corporate markets. Ref: 5485C

BUSINESS DEVELOPMENT/PRODUCT MANAGERS

The successful candidates will be responsible for identifying and managing new market and product developments. Forging key customer and supplier strategic alliances/partnerships will also be a key responsibility. The successful candidates will be numerate, lateral thinkers who combine entrepreneurial flair with proven business acumen. A strong background in US corporate or financial markets/Intranet development is desirable. *Ref: 5486C*

TECHNICAL PROJECT LEADERS

These individuals will devise, plan and successfully deliver complex software projects via multi-functional teams. Successful candidates will be goal-oriented software professionals with significant project management experience in a dynamic environment. Significant exposure to Internet technologies will be a distinct advantage. *Ref: 5487C*

Please send full career and remuneration details, including a daytime telephone number, quoting relevant Reference Number, before 23rd May, to: **Alison Taylor, KPMG Management Consulting, 1 Stokes Place, St. Stephen's Green, Dublin 2, Ireland. Tel: +353 1 708 1800. Fax: +353 1 708 1880. E-mail: hr@kpmg.ie**

Visit our web site at http://www.kpmg.ie

MEMBER OF THE EXECUTIVE SELECTION CONSULTANCIES ASSOCIATION

KPMG

A&A
AINSWORTH & ASSOCIATES

Ainsworth and Associates are specialists in the development of Business Solutions and the application of Information Technology in Finance, with long experience of financial business operations in many different client environments. During the past ten years, we have developed a reputation for excellence unequalled in our field.

Owing to recent expansion we are currently seeking to recruit

Principal & Senior Consultants

with experience in:

Project Management

You have at least 5 years experience running multi-man-year bespoke developments or package selection/systems integration projects using modern Project Management tools and methods within the financial services industry.

Business Analysis

Your profound understanding of the financial services industry will have been gained over a period of 5 – 8 years developing IT solutions with a leader in Asset Management, Custody, Securities Trading & Processing, Investment Banking or Life & Pensions.

Systems Integration

You have specialist understanding in areas such as interfaces, data integrity and security, application and infrastructure performance and tuning, software configuration management, and supplier management gained in a sophisticated financial services environment.

Software Development

You are an accomplished practitioner in the use of PowerBuilder, C++ or VB5, maybe with team leading experience for large scale developments ideally but not necessarily in the financial services sector.

We offer an attractive remuneration package including equity participation and provide an excellent environment for personal development.

In the first instance please contact our retained consultants, quoting reference DA/5, Vine Potterton Limited, Suite 26, Ludgate House, 107-111 Fleet Street, London EC4A 2AB. Tel: 0171-955 0900. Fax: 0171-955 0901.

Business, IT and Training Solutions in Finance

APPLICATION SUPPORT MANAGER

City **£Excellent + bonus + benefits**

As a new and exciting force in international investment banking, our client is building a reputation as a successful marketer and trader of a range of financial products. Continued development of the London office is an important part of their global strategy. The IT environment is a successful marriage of systems, based on modern technology (client/server using Sun/Unix/Sybase, Windows NT, AS400, MS Office), and integrated within an applications architecture. The provision of high quality application support to trading and support areas plays a key role in the continued development of the business.

Against this backdrop, a new role has been created with the responsibility to build and manage a small team of application support specialists. It is essential that you thrive on the challenge of leading from the front, delivering an effective support service to externally provided systems and internally developed solutions. You will have already proved your ability to succeed under pressure, including support to a trading environment.

As an application support specialist with previous working knowledge of some of the bank's core businesses (Money Markets/FX, Fixed Income, Equities, Repos), you must be comfortable with technology and have the ability to work with a variety of packages and understand the technical architecture concepts that support them. An established team leader and man-manager, you must have the interpersonal skills and personal authority to build productive alliances with users bank-wide.

If you can demonstrate the motivation to deliver the best possible service, as well as a record of commitment and achievement in your career to date, then this is a genuine opportunity for you to realise your potential with one of the City's most demanding employers.

For further information, please contact Kevin Davey at McGregor Boyall Associates on 0171 247 7444. Alternatively, send your CV, quoting reference MBFT222, to McGregor Boyall Associates, 114 Middlesex Street, London E1 7JH. Fax: 0171 247 7475. Email: kdavey@mcgregor-boyall.co.uk

McGregor ■ Boyall
Business & Technology Selection for Financial Markets

Net.Works

FT Recruitment

The FT IT Recruitment section is also available all week on www.FT.com

ARTS

Grubbing for dollars in Philistia

Clement Crisp on a moving account of the plight of Russia's great ballet companies

My Russian friends have a tendency to say "Bolshoi problems – Beeg problem." The problems are various and, given the state of the Russian domestic economy, invariably big. They relate to difficulties in adjusting to free-market forces, to shortages and galloping prices, and to an ever-present need for hard currency. To dance-lovers in the west these troubles are nowhere more apparent and more saddening than in the difficulties which attend the appearances by those two monuments of Russian art and Russian ideology, the Bolshoi and Kirov Ballets.

Invincible, adored, enshrining the best features of Soviet art under the commissars, financially secure if creatively blinkered, they were flung into the deep waters of the post-Gorbachov economy and knew not how deep those waters were. Everything that had sustained them – from the strong control that Yury Grigorovich maintained over the Bolshoi for 25 years to the state purse that paid every bill for the Kirov – was gone. What remained was the struggle for a new existence, an identity shadowed by scandals, and the need to haggle for funding in the new market-place, and these are the matters of two illuminating documentaries made by Angus Macqueen for Channel 4, to be seen on May 11 and May 18.

There is a nicely satiric air to their general title, *Dancing for Dollars*. The first programme, *The Bolshoi in Vegas* is a tragi-comedy based on those sterling ingredients of farce and disaster: good-will, incompetence, other-worldliness. An American impresario, who is also a Methodist minister and devoid of experience in ballet, backed only by devout farmers from Ohio, brings the Bolshoi to Las Vegas. ("This is the Biblical Hell" says one of the farmers' wives).

The Bolshoi arrives – but not their costumes. The stage is unready and there is no orchestra pit, and the troupe is playing second billing to a country and western show. And Las Vegas – which surely resembles the amusement arcade in Hell – stays away from the ballet in its thousands.

Macqueen's cameras relish the ludicrous improbability of the affair, confronting Russian artistic idealism with the desperate activities of the promoter and the lurid horror of the setting. As a brilliant foot-note he intercuts news-clips from the Bolshoi's first visit to the US in 1959, while the ballerina Raissa Struchkova recalls crowds throwing flowers under the dancers' feet, and a former dancers tells us how the company was given lessons in table-manners to prepare them for American hospitality. "We were a symbol of the Soviet State", observes Vladimir Kokonin, administrator of the Bolshoi.

Reduced now to grubbing for dollars in Philistia, we know that the débâcle is total, heart-tearing, and – alas – lit by a macabre humour. The Bolshoi then limps from Vegas on to a season, no less depressingly under-attended, in Los Angeles. Financial loss is the only reward. How unjustly are the mighty fallen.

The second programme, *The Kirov in Petersburg*, is less lurid in its colours, but no less sad. It is summed up in by two quotations from the Kirov Ballet directorate – itself in a state of flux at the moment. "Basically, we are on our own now" and "I don't know what the future holds".

This last is said by Oleg Vinogradov, director of the troupe. He it was who, in the late 1970s, pulled the company together in the wake of the shock caused by the defections of Makarova and Baryshnikov. Certainly Vinogradov sustained the ensemble – despite his own awful choreographies – but latterly there has been talk of financial irregularities, arrests and releases from arrest.

Faced with market forces today, the company still puts on a brave front, but Macqueen probes cleverly into the traditional values that were once the Kirov's mainstay – from its dance roots to its grand identity for the ordinary people of Leningrad who, as St Petersburgers, now cannot afford to go to the ballet – and finds tensions that have have yet to be in any way resolved. The clips of two recent creations – a self-evident stinker about Goya, and a Wagnerian romp, made for his new wife, in which Vinogradov views his own chequered history as a "Resurrection" – are proof of grave artistic problems.

Angus Macqueen is not, mercifully, a television dance-expert. His previous programmes have included admirable studies on Eastern European politics (his survey of the collapse of the Iron Curtain in the *People's Century* series was very fine), and these two documentaries, for all their dance interest, are centrally about the plight and destiny of post-Soviet art. For those of us who have loved and been inspired by this art – for all its constraints – they must be profoundly moving.

Dancing for Dollars is on Channel 4, May 11 and 18.

Theatre

A grievous attack of nobility

To stage the plays of Shakespeare's contemporaries, immediate predecessors, and successors is just what Stratford-upon-Avon's Swan Theatre was meant for when built in the 1980s. *The Spanish Tragedy*, a play by Thomas Kyd much mentioned in the history of Elizabethan drama but seldom staged, bursts into three-dimensional life here.

Nonetheless, I resisted Michael Boyd's new staging for a long time. Much of its acting and great swathes of its verse-speaking are altogether too actorly; and it begins (and ends) with a crass piece of tinkering with the text. The play has a good deal of exposition, and Boyd – who so beautifully clarified the complexities of John Ford's *The Broken Heart* two years ago – here does not quickly help the audience to figure out who is who. Gradually, however, the sheer impetus of the play itself picks us up and carries us along; and Boyd makes it vivid.

It must be said that the Royal Shakespeare Company actors demonstrated a wide range of terrible verse-speaking methods. These include: a pogo-stick delivery of iambic metre; the exaggerated and unnatural caesura in mid-line (and, less frequent, its opposite: running lines together); a thwacking over-emphasis on individual words; the quasi-Verdian vocal climb up to the suspended final word of a line; the sudden plunge into plummy chest register; and the sustained shout, for passages of heightened emotion.

And yet these methods are not part of a single style: some of the actors sound as if they are giving hammy master-classes in The Classic Drama, others as if they were gamely apprenticing themselves to the art of rhetoric in a language they did not actually understand.

Some of the most natural speaking comes from Peter Wight as Hieronimo, a thoroughly difficult role. The problem here, however, is that his is the naturalness of a desk sergeant or chartered surveyor (he also shouts too much at emotional climaxes and, curiously, he has no clue how to walk, changing his method several times even in one episode). Still, I prefer this to Jeffry Wickham and Paul Benthall – as the King of Spain and his brother, the Duke of Castile – both of whom are suffering from attacks of nobility so grievous that their least actions seem insincere.

As the ghost of Don Andrea, who passionately watches the operation of revenge throughout the play, Patrice Naiambana has intensity without style and, often, without sincerity: his most violent passages are a classic example of an actor indulging himself but not the audience. Deirdra Morris, as Hieronimo's wife Isabella, is equally overwrought and more artificial.

The best performance is by Siobhan Redmond as Castile's daughter Bel-imperia, whose first lover (Don Andrea) is killed in battle and whose second (Hieronimo's son Horatio) is murdered. This actress has, admittedly, a few mannerisms and tricks too many: the artful eyelids and lips, the occasional contrivances of speech. In general, however, she has bite, ardour, wit, eloquence, refinement; she is always a complex, involved, multi-faceted being. As her murdering brother Lorenzo, Robert Glenister is interesting in his mixture of nervous intensity and inscrutable authority; he would be twice as good without the creepy laughter and sometimes unspontaneous vocalisation. Tristan Sturrock plays Horatio with impressive simplicity.

Craig Armstrong has composed some highly effective music in Romantic style, for brass ensemble. The worst feature of Boyd's production is its first; alas, in case you forget it, he also brings it back as the last. Don Andrea (at the beginning) cannot get through his first line in his first long speech without being repeatedly prompted by the spectral voice of Revenge, who floats around the rear of the auditorium. Then (at the end of the play, in a speech that Kyd didn't write here), Horatio and Revenge do the same all over again. *This is a Concept with* all the dramatic subtlety of a cosh.

Alastair Macaulay

Swan Theatre, Stratford-upon-Avon.

Siobhan Redmond and Patrice Naiambana in the new RSC production of 'The Spanish Tragedy' Alastair Muir

London concerts/**David Murray**

Halls of sound

Since the Queen's Hall was bombed out during the war, London has not had a world-class hall for orchestral concerts. Certainly not for the larger variety of symphonic bands that we now hear: "period"-instrument bands, tight contemporary ensembles, orchestras trimmed down to Haydn-size or vastly expanded for Mahler, with and without vast choruses. When the band is wrong for the hall, buying a good CD would often be a better deal.

Last Sunday, Daniele Gatti conducted the Royal Philharmonic in Mahler's Fifth Symphony at the Albert Hall – an event that should have been interesting, since Gatti represents the new breed of Italian conductors: properly devoted to Rossini and Verdi, but too intelligent not to want to explore a much wider repertoire besides. At the Festival Hall on Wednesday, the conductor-cellist Heinrich Schiff led the Brighton Festival Chorus and the "period instrument" Orchestra of the Age of Enlightenment through Beethoven's *Missa Solemnis*.

The latter work sounded much more reverent than grandiose, which was all to the good. As usual it was fascinating to hear the differences that old-style instruments made to the overall effects: the soft-grained sound ensured that nothing like Verdi's *Requiem* ever came to mind. Schiff's quartet of young soloists were sensitive and fervent, the chorus assured, even in Beethoven's cruelly high writing for the sopranos.

Intermittently, though, this fine performance seemed a bit *small*: simply because the dry, unforgiving acoustic of the Festival Hall lent no bloom to the instruments. In fact there were only four double basses, and quiet string passages virtually disappeared under the voices. At Salzburg last summer, John Eliot Gardiner's similar Orchestre Révolutionnaire et Romantique gave much stronger underpinnings to the work, without being much louder.

There are plans afoot for a radical re-design of the whole stage area, aiming at a kinder, more resonant acoustic. That cannot come too soon. But what about the Royal Albert Hall, where the Royal Philharmonic is now resident? The infamous echoes have been decisively suppressed by the giant "mushrooms" that hang from the ceiling, and a canopy over the orchestra; but what does that leave?

For Gatti's concert I found myself in a top-price seat in the stalls at far right – facing the backs of the entire viola section. The first violins, like the soloist Shlomo Mintz in Mendelssohn's violin concerto, were aiming their sound into the mid-arena, at a 90-degree angle away from me.

What I heard was of course grossly unbalanced and muddy, not the fault of the playing (which as far as one could tell was bright and alert). And it came *only* from the platform; the rest of that vast interior space remained dead and silent, giving nothing back. Scary! Pending some miracle that will transform the intractable acoustics, the RPO might at least think hard about which parts of the hall are worth paying to sit in.

Pop/**Antony Thorncroft**

More cabaret than rap

The Fugees were the one rap act to get out of the ghetto last year when their heavily spiced up version of Roberta Flack's languid ballad "Killing me softly" was stalled at the top of the charts for many weeks. It did them little good in the long run because they lost total credibility with the critics who like their rap artistes to be mean, moody and malevolent.

So their appearance at Wembley Arena this week was seminal: are they here to stay, or was 1996 their 15 minutes of fame? The floor had been cleared of chairs to allow the hip-hoppers to hop their legs off; there were trappings of big band hysteria with a long, oh, so long, warm up; and enough flashes and bangs at their arrival on stage to wake up an audience traumatised by the incoherent rantings and verbal pat-a-cakes of support act Jay-Z. But I'm afraid that on this showing the Fugees will be forced to live off their back catalogue.

Like many rap acts they find it all but impossible to settle down and perform. Like fractious children they wander around the stage, trying a little of that song, a bit of that rap, messing around with smatterings of music like drunks at a karaoke party. It took a good half hour for a coherent song to emerge, the Fugee's version of Bob Marley's "No woman, no cry", and then it was back to banter.

I suppose the aim is to be fresh and street-like, one of the gang, true to the roots, that sort of thing. But this contrived amateurishness just produces the clichés that professional bands long ago gave over, like playing the guitar with the teeth, pouring water on the front rows, and calling on stage a member of the "audience" who wows with his ability to rap with the band.

The Fugees hit gold with the simple idea of making cover versions of pop classics in which rap gave some bite to sweet melodies. But the fact that their latest work-over is "Guantanamera" suggests how quickly the idea can degenerate into bad taste. Lauryn Hill, battling against a bad cold, has charm and a mellow voice, and her two cousins are energetic and lively. With personalities much more powerful than their music the Fugees come across as a cabaret act in the making. But first they need to improve their stage outfits: why do rap performers have to dress like the trainers of lower division football teams?

INTERNATIONAL ARTS GUIDE

ATHENS

CONCERT
Athens Concert Hall Tel: 30-1-7282333
● Elisabeth Leonskaja: the pianist performs works by Schubert; May 13

■ BERGAMO

CONCERT
Teatro Donizetti Tel: 39-30 293 022
● Orchestra del Festival *Internazionale* de Brescia e Bergamo: with conductor Agostino Orizio, violinist Sergej Krylov and pianist Stefania Mormone perform works by Schubert and Mendelssohn. Part of the Festival Pianistico Internazionale di Brescia e Bergamo; May 12

■ BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Orchester der Deutschen Oper Berlin: *with conductor Rafael* Frühbeck de Burgos and organ-player Martin Haselbvck perform works by Blacher, Hindemith and Brahms; May 13

■ COLOGNE

CONCERT
Kvlner Philharmonie Tel: 49-221-2040820
● Mitsuko Uchida: the pianist performs works by Berg, Schumann and Schubert; May 12

■ FLORENCE

CONCERT
Teatro Comunale Tel: 39-55-211158
● Orchestra e Coro del Maggio Musicale Fiorentino: with *conductor* Frank Shipway perform works by Wagner and Mendelssohn. Part of the 60th Maggio Musicale Fiorentino 1997; May 10

■ FRANKFURT AM MAIN

CONCERT
Alte Oper Tel: 49-69-1340400
● Juliane Banse: performance by the soprano accompanied by Ingeborg Danz, Christoph Prigardien, Thomas Quasthoff, Wolfram Rieger and *Michael* Gees. The programme includes work by Brahms, Jenner and Rossini; May 11

■ GLASGOW

EXHIBITION
The Burrell Collection Tel: 44-141-3311854
● Europe in India - Moghal Paintings and their European Prototypes: exhibition on loan from the British Museum featuring a number of Indian paintings influenced by European prototypes, primarily of the Moghal school of the 15-18th centuries; to Aug 31

■ LONDON

CONCERT
St. John's, Smith Square Tel: 44-171-2221061
● Vogler Quartet: performs works by Schubert; May 12

EXHIBITION
Barbican Art Gallery Tel: 44-171-6384141
● Modern Art in Britain 1910-1914: sequel to the 1995 'Impressionism in Britain' exhibition, revealing the extraordinary range of modern European art exhibited in Britain during the years leading up to the First World War. On display are works by Cézanne, Gauguin, Van Gogh, Matisse, Derain, Picasso and Severini alongside pieces by the British artists they influenced, including Vanessa Bell, Roger Fry and Duncan Grant; to May 26

OPERA
***Royal Opera House - Covent* Garden** Tel: 44-171-2129234
● Elektra: by R. Strauss. Conducted by Christian Tielemann, performed by the Royal Opera. Soloists include Deborah Polaski, Karita Mattila and Felicity Palmer; May 13

■ MILAN

OPERA
Teatro alla Scala di Milano Tel: 39-2-88791
● Faust: by Gounod. Conducted by Patrick Fournillier, performed by the Orchestra e Coro del Teatro alla Scala. Soloists include Debora Beronesi, Christina Gallardo Domas, Stuart Neill and Giuseppe Sabbatini; May 10, 13

■ MUNICH

EXHIBITION
Kunsthalle der Hypo-Kulturstiftung Tel: 49-89-224412
● Alberto Giacometti: display of works by the Swiss sculptor, with over 60 pieces selected from the Foundation Maeght in St. Paul-de-Vence; to Jun 29

■ PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● The Seasons, Oratorio: by Haydn. Conducted by John Nelson, performed by the Ensemble Orchestral de Paris and the Choeur d'Oratorio de Paris. Soloists include soprano Christine Brewer, tenor Hans-Peter Blochwitz and bass Steven *Morschak*; May 13

OPERA
L'Opera de Paris Bastille Tel: 33-1 44 73 13 99
● Lohengrin: by Wagner. Conducted by James Conlon, performed by the Orchestre et Choeurs de l'Opera National de Paris. Soloists include Kristinn Sigmundsson, Thomas Moser and Eva Johansson; May 12

■ ROME

DANCE
Teatro dell' Opera di Roma Tel: 39-6-481601
● Orlando: choreographed by Robert North to music by Rendine, performed by the Corpo di Ballo dell' Opera di Roma; May 13

■ STOCKHOLM

EXHIBITION
Moderna Museet - Museum of Modern Art Tel: 46-8-6664250
● Picasso and the Mediterranean: exhibition examining the influence of Classical Greek visual arts and mythology on Picasso's work. Comprising approximately 200 works by the artist, dating from 1906-1960, the exhibition includes paintings, sculptures, graphic works and ceramics. There are also Cycladic, Mycenaean, archaic and classical Greek, Iberian, Etruscan and Greco-Roman works; to May 18

■ TORONTO

EXHIBITION
Art Gallery of Ontario Tel: 1-416-979-6648
● Edvard Munch's 'The Scream' and Popular Culture: exhibition exploring the myriad ways Munch's internationally recognised icon of angst has been developed in popular culture to express social and political commentary; to May 25

■ VENICE

EXHIBITION
Collezione Peggy Guggenheim Tel: 39-41-5206288
● George Grosz: The Berlin Years: exhibition focusing on the years the German Expressionist painter and graphic artist George Grosz (1893-1959) was working in Berlin. The exhibition features some 20 oil paintings, approximately 100 works on *paper, illustrated books and other* objects; to May 18

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Cecilia Bartoli: performance by the mezzo-soprano, accompanied by the pianist Jean-Yves Thibaudet. The programme includes works by Ravel, Delibes, Rossini and Bellini; May 13
Theater an der Wien Tel: 43-1-58830237
● Klangforum Wien: with conductor Heinz Holliger, mezzo-soprano Cornelia Kallisch and tenor Chrisitan Elsner perform works by Holliger and Mahler . Part of the Internationales Musikfest der Wiener Konzerthausgesellschaft; May 13

Listing selected and edited by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441. E-mail: artbase@pi.net**

WORLD SERVICE

BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

(Central European Time)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

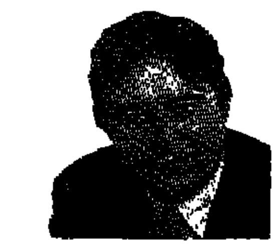
17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight



Philip Stephens

The central line

The way the Bank of England decision was taken reveals Blair's determination to concentrate power in a few hands

You do not have to look far to see where the power lies in Britain's new administration. In 10 Downing Street, Tony Blair is creating an office of the prime minister with unprecedented authority and reach. Over at the Treasury, Gordon Brown is rebuilding the empire once ruled by Nigel Lawson. Friends and fellow modernisers in opposition, Messrs Blair and Brown now define the limits and ambitions of New Labour in power.

At a glance, Mr Brown's opening act diminished his office by ceding to the Bank of England control over interest rates. That, anyway, is how Whitehall's mandarins see it (though the Treasury did insist on a quid pro quo by taking over the Bank's debt management operations). My guess is that, for the short term at least, Mr Brown's surrender was more apparent than real.

As the first Labour chancellor since Denis Healey, he would anyway have been sorely constrained. The markets tolerated Kenneth Clarke's monthly tussles with Eddie George, the Bank governor. They would not have been so tolerant of his successor.

My concerns focus on the medium term. There have been plenty of previous attempts to put macro-economic policy on auto-pilot. Remember the gold standard, money supply targets, the exchange rate mechanism? Each time, the louder the initial acclaim in the markets, the more dismal the eventual outcome.

We know now the ERM was a disaster. It did not seem so in October 1990. Nothing so dramatic is promised by the new arrangement. The risk is rather of a permanent deflationary bias in monetary policy. To mitigate the danger, Mr Brown must use the Budget to set a new inflation target.

The present target of "2.5 per cent or less" carries the message that an outcome of, say, 1 per cent could be measured as a success – even if the economy was growing at a rate well below its potential. I suspect Mr Brown will redefine the target either in terms of a range (say, 1.5 to 2.5 per cent) or as a simple figure (say, 2 per cent).

Almost as remarkable as the decision to give the Bank de facto independence, however, was the manner in which it was taken. Mr Blair had long agreed with Mr Brown that trading interest rates for precious credibility in the markets would be a fair bargain for a New Labour government.

But this was to be a medium-term goal. It was not until the eve of the election that the two men agreed to accelerate the timetable. Sir Terence Burns, the Treasury permanent secretary, was told only last Friday afternoon. Mr George was informed just 24 hours before the decision was announced. More than that, only two other senior members of the cabinet – John Prescott, Mr Blair's deputy, and Robin Cook, the foreign secretary – were consulted. This was not the style of a collegiate prime minister.

The same determination to concentrate power at the centre is seen in Mr Blair's rapid restructuring of No 10 and the cabinet office.

> Remember the gold standard, money supply targets, the ERM? The louder the initial acclaim in the markets, the more dismal the eventual outcome

His pivotal political appointees, Jonathan Powell as chief of staff (and soon to be principal private secretary) and Alistair Campbell, the press secretary, have moved swiftly to tighten the prime ministerial grip on departmental policy. Peter Mandelson, minister without portfolio and as close to Mr Blair as any, will perform the same task as Mr Blair's personal representative on a clutch of cabinet committees.

The changes reflect Mr Blair's view that government is as much as anything about political will, focus and energy. He admires the way Margaret Thatcher neutralised the powerful centrifugal forces inherent in Whitehall's baronial structure.

He was always scathing of John Major's failure to drive the Downing Street machine. As Clement Attlee once put it: "Democracy means government by discussion but it is only effective if you can stop people talking." In Mr Blair's case one might substitute "colleagues" for people.

The same story is told by the establishment of a new ministerial strategy committee. Once again Messrs Prescott and Cook, the two most powerful ministers beyond the No 10/Treasury axis, will join Mr Blair and Mr Brown.

For those, officials and journalists alike, who had grown accustomed to the ramshackle ways of Mr Major's administration, all this has a Cromwellian flavour about it. The single-mindedness of Mr Blair's team is deemed somehow to be rather offensive. As in sport, so in politics: the British have a soft spot for the bungling amateur over the slick professional.

That cuts little ice at the Treasury, where Mr Brown's political advisers have invaded the chancellor's private office, traditionally an exclusive preserve of neutral officialdom. New Labour staffers learnt in opposition that proximity equals power.

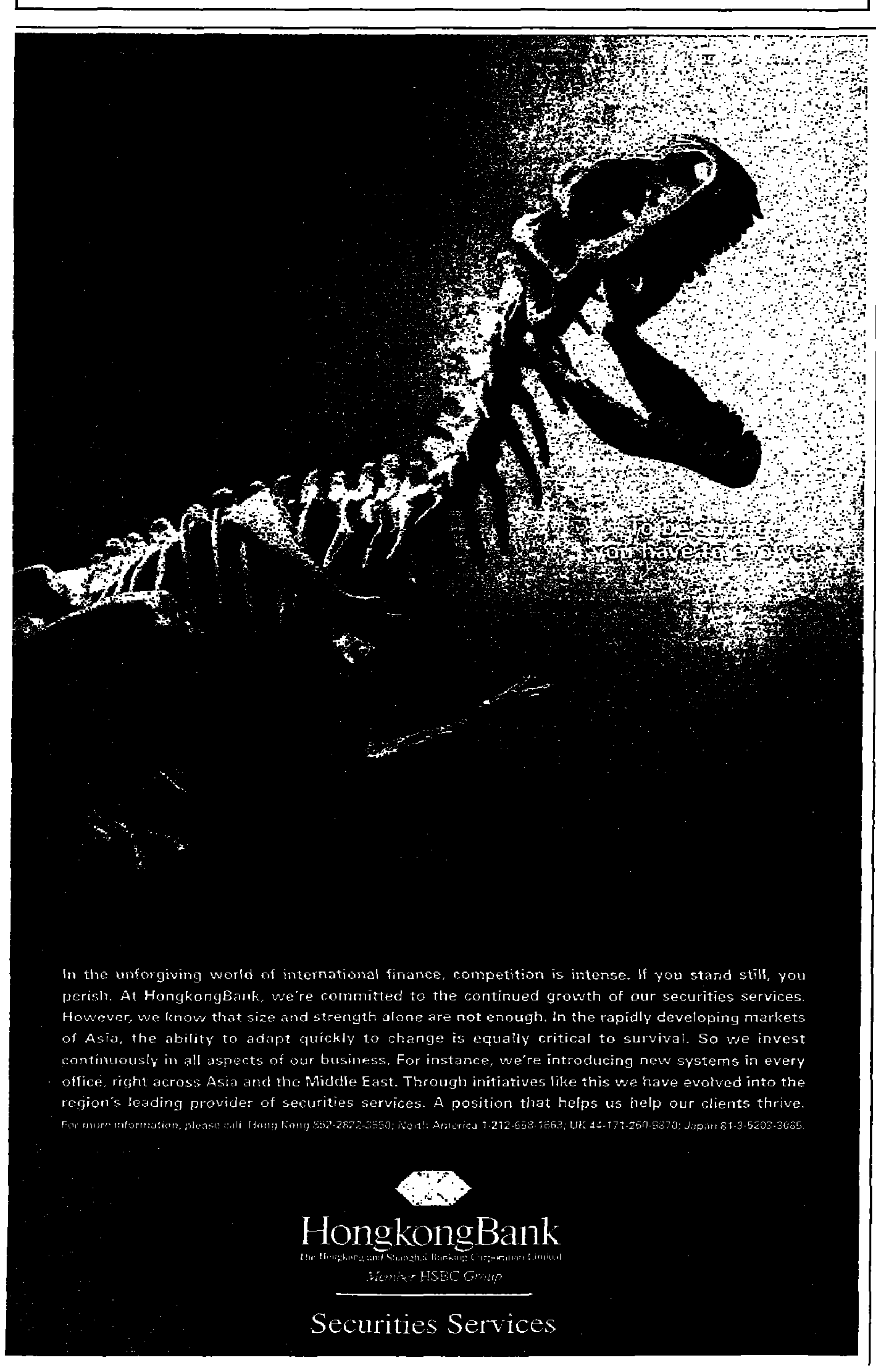
Mr Brown meantime has been casting his net in the rest of Whitehall. Harriet Harman at social security and Margaret Beckett at trade and industry were both the chancellor's choices. Ms Harman's appointment tightens Mr Brown's hold on the first priority of Mr Blair's programme: reform of the welfare state to release resources for the education budget. The chancellor is already in the chair of the cabinet committee tasked with implementing a welfare-to-work programme.

Promised next is an overarching strategy to promote long-term investment and raise the economy's productive potential. Alongside an acceleration of the private finance initiative, it foresees a further widening of Mr Brown's sphere of influence.

The parallel with Mrs Thatcher and Mr Lawson before they fell out over sterling is inescapable. Together they delivered the bulk of the Thatcher revolution in the mid-1980s – liberalisation, deregulation, privatisation and the defeat of the unions.

Mr Blair and Mr Brown promise a second supply-side revolution. And a powerful prime minister and strong Treasury are an irresistible combination. There are, though, one or two caveats. Politicians of Mr Cook's stature cannot be sidelined. Nor will professional presentation hide real political conflicts over issues like public spending.

And one last thought: the Blair/Brown axis is now the vital hinge of the new administration. We know from the falling out between Mrs Thatcher and Mr Lawson the havoc that would be wrought if it ever snapped.



LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com. Published letters are also available on the FT web site, http://www.FT.com. Translation may be available for letters written in the main international languages.

Globalisation challenge is how to aid losers but keep gains

From Professor Adrian Wood.

Sir, In his article "Global opportunities" (May 6), Martin Wolf takes the part of Dr Pangloss, arguing that all is for the best in the best of all possible worlds. In particular, he asserts that "the evidence" shows the alleged contribution of globalisation to rising inequality in advanced countries to be "largely mythical".

This is not correct. There remains wide divergence of academic opinion on this point, precisely because of the great difficulty of obtaining scientific evidence conclusive enough to settle it. Outside academia, most people continue to believe the evidence of their eyes and ears, which tell them globalisation has indeed hurt unskilled workers in advanced countries.

The real political challenge of globalisation, which Mr Wolf avoids, is how to help the minority of losers – in developing as well as advanced countries – without throwing away the gains of the majority.

Adrian Wood,
Institute of Development Studies,
University of Sussex,
Brighton BN1 9RE, UK

Valid reason for refugee stringency

From Mr George Chowdharay-Best.

Sir, The entry into the UK of very large numbers of asylum-seekers over recent years and the fact that very few of them have been, in practice, deported, whatever the validity of their claims, has meant that the rights of others cannot be met in full – for example locally enlisted people in Hong Kong assisting the forces of the Crown who will become completely redundant within a few weeks and subject to the whims of a (to them) alien power. This is the dilemma which Edward Mortimer, in his open letter to the home secretary ("The right to be heard", May 7), does not face.

Thirty years ago the Labour government of the day failed to face up to it when it tried to abandon to their fate people of Asian descent in east Africa who had been promised British citizenship by Duncan Sandys under a previous government. There is an old saying that charity begins at home. The locally enlisted personnel of Hong Kong may not be kith and kin, but their loyalty to the Crown and to the British people has been proved, in many cases for generations. They have a far greater claim upon us than anyone who is not a refugee in really imminent danger of his or her life. That is one valid argument for imposing stringent requirements upon would-be refugees which should not be lost sight of.

George Chowdharay-Best,
27 Walpole Street,
London SW3 4QS, UK

Independence of Bank must be real

From Mr John Ryding.

Sir, The new chancellor, Gordon Brown, took a bold step in freeing the Bank of England from its political masters and was handsomely rewarded by the financial markets. Despite a quarter-point rate hike in base rates, yields on long gilts fell from 7½ per cent to about 7¼ per cent.

Not making the Bank of England independent was probably the Tories' biggest failing on economic policy. The size of the fall in long-term interest rates demonstrates the costs of not having made the Old Lady independent.

However, in making appointments to the Bank's new committee, it will be important that the prime minister, Mr Tony Blair, and Mr Brown choose wisely and keep politics out of the process. Part of the success of the US Federal Reserve is the independence of the regional bank presidents – who are not chosen by the president – the 14-year terms that governors receive, and the Senate confirmation process for governors. In the UK, Eddie George has an excellent track record as governor of the Bank, and Mr Blair should not even think about replacing him.

For its part, however, the Bank will find its new role challenging. The received wisdom in the markets appears to be that the Bank will continue to raise rates. However, given the strength of sterling and the openness of the UK economy, I doubt the Bank will have any problem hitting its 2½ per cent inflation target in 1997 without further rate increases.

Moreover, the apparent confidence in the newly independent Bank is itself a policy tightening, since credibility is a vital weapon in a central bank's arsenal.

However, it is important that the Bank rebuilds its forecasting apparatus. Since policy must be forward-looking, it can only be based on forecasts. When I used to head the Bank's forecasting team it had a very strong (alas unpublished) record. In recent years the Bank's forecasting machinery and resources have been cut. It is important that forecasting, supported by the necessary research, becomes the number one priority of the Bank's economics division.

John Ryding,
senior economist,
Bear Stearns & Co.,
245 Park Ave,
New York, NY 10167, US

From Mr Andrew Newton.

Sir, regarding a more independent Bank of England one must ask if political participation in monetary policy is so detrimental. The well documented theories on political abuse need to be balanced with the reality of the large scale of democratic accountability in Britain. Further, the strong record of monetary policy over recent years indicates that such a system can work.

Why move to technocratic policy making? Gordon Brown has wasted little time in caving in to the current political correctness of central bank independence at the expense of one of the most democratic-functioning monetary policies.

Andrew Newton,
9213 Beachway Lane,
Springfield,
Virginia 22153, US

Action taken on Slovenia's economy appropriate

From Mr G. Dolenc.

Sir, Your estimate in the Slovenia survey's economic summary (April 28) of the country's 1996 budget deficit of 1.9 per cent of gross domestic product is inaccurate. In fact, Kevin Done's article, "A foot on the fast track", provides the correct number, a surplus of 0.3 per cent.

By the same token, the forecast 1997 budget deficit of 0.7 per cent of GDP is highly suspect and, based on the record so far, unwarranted.

As for Governor Arhar's consistent efforts to control the growth in base money, which recently included measures that presumably "angered" international fund managers, he clearly acted appropriately given the prevailing circumstances – using monetary management tools at his disposal. What other measures should he have taken?

The assertion that Slovenia's success is at a watershed may be correct. However, in this regard foreign investment of about $150m per annum is hardly decisive given Slovenia's gross savings which are in excess of 20 per cent of GDP. The real "watershed" issue for Slovenia is to complete the privatisation and consolidation of its economy while preserving its macro-economic stability.

On this basis, it should create a basis for high, single-digit growth of GDP – at which point the local equities are likely to be more realistically valued than now. Meanwhile, if international portfolio investors should decide to stay away because of Bank of Slovenia regulations and go to, say, Romania or central Asia there is very little now Slovenia could, or should, do.

G. Dolenc,
7706 Geranium Street,
Bethesda, MD 20817, US

Personal View · Kenneth Clarke

Death of a tested strategy

The UK's new chancellor may live to regret yielding power to the central bank

On Tuesday, Mr Gordon Brown, the new Labour chancellor, ripped up the most successful monetary policy Britain has seen for many years by giving operational responsibility for interest rates solely to the Bank of England.

Two questions now arise. First, was he right to do so? Second, will his new approach be more effective than the arrangements over the past few years?

My answer to both questions is no. But, for a considered analysis, we need to look at Britain's inflation record and at the prospects for the next few years.

Since the second world war, Britain has gained a reputation as a high-inflation economy. While other countries built up economic strength on the back of consistently low inflation, Britain's readiness to let inflation run out of control meant that boom followed bust time and again.

In the past few years, Britain has started to put that right. The new monetary framework put in place after sterling's traumatic departure from the European exchange rate mechanism has delivered the best inflation performance for many decades.

The underlying rate has now been below 4 per cent for 54 consecutive months – longer than at any time in the last 50 years. The UK can expect to hit the 2.5 per cent target a little later this year. And, far from being one of Europe's high-inflation economies, the latest harmonised European Union figures show Britain's inflation rate at 1.8 per cent, a fraction below the EU average.

With higher growth and lower unemployment than France, Germany or Italy, plus the lion's share of investment from outside Europe, the UK has a realistic prospect of becoming the most successful industrialised economy in Europe. But only if Britain keeps taking the right decisions on inflation.

My approach was well-known. I always listened carefully to the advice of the Bank of England. But, at the end of the day, I took my own decisions on interest rates.

Mr Brown has recognised that the Bank's recent record has been mixed. Setting out his plans for monetary policy in February, he said that "the Bank must demonstrate a successful track record in its advice and build greater public credibility" before being handed operational responsibility for interest rates.

He argued that "we must observe the Bank's track record of advice in the future" before taking such a step. So it is all the more strange that he should take such a radical step when the Bank's record under the new government is no more than four days long.

Within days of the election, Mr Brown has gone back on his own considered view. As his first major policy decision, it is a remarkable performance.

So what are the prospects for Britain's economy under Labour's new policy framework? I have no doubt the inflation target will be met: the Bank will see to that.

My concern is that the Bank will be over-cautious – as its record over the past few years shows – putting up interest rates to make doubly sure of hitting the inflation target, but at the same time squeezing jobs and investment.

As chancellor, I found myself in a strong position. On the one hand, I could call on the very best advice from the Treasury and the Bank; on the other hand, as an active politician, I was in a position to keep my finger on the pulse of the real economy by talking to people in industry and business.

Kenneth Clarke: 'I was able to pursue the best policy'

By placing their views in the balance together with the hard statistics, I was able to take interest-rate decisions which kept us on track to hit the inflation target without causing undue hardship to those sectors of the economy that create jobs, wealth and prosperity.

In short, I was able to pursue the best policy for the hard-working men and women in the street. They want to be sure that their jobs will last and that they can afford their mortgages. They want the prospect of doing a little better – of being promoted or getting a decent pay rise.

Unnecessarily high interest rates would put all this at risk. So Mr Brown's announcements may be good for his own image as an "iron chancellor", but bad for the real economy.

If markets are to have confidence in a chancellor, the first condition is that the chancellor must have confidence in himself. By giving away control of one of the key levers of economic policy only days after taking office, Mr Brown has made it clear he is not ready to take on the full range of responsibilities that his predecessors have exercised.

Tuesday's unnecessary and over-hasty decision puts Britain's economic prospects at serious risk. It abandons a tried and tested approach that has delivered the best inflation performance for decades.

It hands complete operational responsibility to the Bank of England at a time when its recent record is at best mixed. It is a hasty decision Mr Brown may come to regret.

The author was UK chancellor between 1993 and 1997

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Friday May 9 1997

A job for Europe

European countries have for years been calling on Algeria to restore democracy as a way out of its bloody civil war. Yet as the country prepares for legislative elections that may mark a step in that direction, they are doing nothing to help.

The Algerian regime has invited 40 countries to send observers to monitor the elections. While the US has agreed to the challenge, leading countries in the European Union are hesitant, anxious to stay out of a conflict that is both close to home and apparently intractable. Their attitude does the EU no credit, and may make the situation in Algeria worse.

Concern for the security of observers is one, valid reason for caution. Foreigners are at risk in Algeria; the French feel particularly targeted by the Islamist groups. But observers will be provided with protection the US has deemed satisfactory. And, as the experience of journalists shows, government protection need not prevent observers from doing their job.

There are other arguments against sending observers. Algeria's record on elections is lousy. In 1991 legislative elections were cancelled by the army; the November 1995 presidential elections were boycotted by the main parties; and the results of the November 1996 referendum on the constitution defied belief.

The June elections are also flawed, prompting fears that sending observers will only lend legitimacy to a stage-managed process. The Islamic Salvation Front (FIS), the party which was poised to win the elections cancelled by the army, is excluded. The president, a former army general elected in 1995, has gained new powers, while those of the assembly which will emerge from the elections are feeble. A new party set up earlier this year with the regime's backing will no doubt be one of the winners.

But these arguments are far from conclusive. One good reason for Europe to send observers is that all the main legal opposition parties, some of them moderate Islamists, are taking part in the poll. Even the Socialist Forces Front (FFS), among the regime's strongest critics, is participating. Although no one expects the elections to lead to an end to violence in the near term, many hope they will serve as an opportunity to start rebuilding confidence.

More importantly, the opposition has urged western countries to send monitors. It fears its assessments of the results will be dismissed by the government unless supported by international observers' reports. With 7,000 voting stations, only a large observer presence can ensure that the government fulfils its promise of a fair poll.

Alchemy

Financial history is generously punctuated with announcements of the discovery of the world's biggest gold deposit. Such revelations deserve to be addressed with the same spirit of inquiry as the thirteenth chime of a grandfather clock.

While central bankers have been falling out of love with a commodity that used to be the anchor of the monetary system, gold still casts a spell over lesser mortals. The rise and fall of Bre-X, the Canadian operator of Indonesia's Busang mining site, is all of a piece with earlier scams in which gullible investors lost money.

Here, for example, is how the eleventh Earl of Fingall began his telegram to London about the mining of Australia's much-hyped Londonderry reef in 1894: "Regret in the extreme have to inform you that rich chutes of ore opened very bad indeed. Does not appear to be practically anything important left."

The board of the Londonderry Gold Mining Company received the telegram on Tuesday, but *somehow* failed to alert the media until Friday. By an unhappy chance the shares collapsed in the interim. The Financial Times expressed outrage, but gold fever continued unabated in London.

Mineral finds are often remote from the capital markets of the *western* world. And distance seems to make the greed grow stronger. Yet this rule of thumb appears to break down where claims made by promoters and entrepreneurs about more accessible finds are sufficiently outlandish. A case in point was the British company E.J. Austin, which in the early 1970s announced a rich killing in that well-known Eldorado, Cyprus.

When the entrepreneur behind Austin declared that he had also discovered a revolutionary process that would miraculously multiply the proceeds from mines in Cyprus and Nevada, savvy fund managers in the City punted all the more furiously in the stock. They did not think to check out the story. The company quickly folded.

The unsavoury role of the Indonesian government in the Busang fiasco gives a twist to the latest tale. But self-serving governmental behaviour in metals is nothing new. In 1625, when silver was still the standard money in Europe, Sweden adopted a copper-based money. As luck would have it, the Swedish state was part owner of the largest copper mine in Europe, Stora Kopparberg.

This cumbersome, low-value metal was a curse for transactions of any size. But it did at least have the merit that burglars could carry little of it away. And cases in which investors suspended their disbelief over copper have been mercifully rarer than with gold.

Private finance

It is no surprise that the UK's new Labour government wants to revive the Private Finance Initiative. The scheme, launched by the Conservatives in 1992, was intended to soften the impact of government public spending limits by contracting out public sector projects to the private sector.

So far it has stirred up plenty of good ideas, but a disappointingly small amount of hard cash. A host of difficulties, some technical and legal, have held up the signing of contracts.

The government is setting up a rapid review to reduce these obstacles, and it has rightly ended the rule that private finance be considered for all public sector projects. This rule might have been justified when the idea was being launched, but it now wastes too much time. For some projects it may be all but impossible to transfer risks from the public to the private sector at an acceptable cost. The risks of building and maintaining a motorway, for example, may be of a different order from those of providing a hospital service which might not be needed in 15 years' time. Who should bear the cost of *unforeseen* changes in policy or social conditions – and how?

The review needs to recognise that this can be a fundamental difficulty. The private sector may be able to provide a service more efficiently, for example by making a better *trade-off* between capital and running expenses, but its cost of capital and its price for political risk may be relatively high.

A more discriminatory *approach is therefore needed.* The government must also resist the temptation to fudge the problems of risk allocation in its desire to wave through more projects. The last government's plans envisaged a 10 per cent *cut in cash terms in public* sector capital spending between 1997-97 and 1999-2000. PFI projects worth £10bn were intended to fill the gap.

The Labour government, needs at least this amount of PFI if it is to reconcile its ambitions to improve public services with its promise to meet existing targets for public spending. A sharper focus and improved procedures would be a welcome *outcome. But the government* must not treat the PFI as a free ride – offering a back-double around its own expenditure controls. The costs of privately financed projects may, legitimately, be deferred, but they are not magicked away.

So tests of value for money must not be relaxed. Nor should the government be seduced by the fiction that this type of financing somehow "does not count", because it *does not* show up in the Public Sector Borrowing Requirement. Today's hospitals or roads must surely be paid for, and the Treasury's accounts need to show much more clearly how that burden will fall.

An American in Hanoi

Jeremy Grant and Bruce Clark on what former foes hope to gain from friendly co-operation

Mr Douglas "Pete" Peterson was in Vietnam in 1966 when he was flying a bombing raid over the north of the country. His aircraft was hit and he was captured, jailed and tortured. Today he returns in rather different circumstances – as US ambassador.

His return to Hanoi as Washington's first envoy since the Vietnam war is a symbol of the line the two former enemies are trying to draw under that bloody period. The war left 3m Vietnamese and 58,000 Americans dead and has scarred the US psyche more than any event since the second world war.

It will probably be the last time such symbolism has much resonance. Accounting for soldiers missing in action is officially still Washington's priority in Vietnam, but in reality the more mundane issue of trade tops the agenda.

Privately, US diplomats talk of building "a strategic partnership" rather than mere "friendly relations". Military-to-military ties were cemented in March and a group of Vietnam's top brass was recently taken on a groundbreaking tour of Pearl Harbour.

"The mainstream of American opinion has already moved well beyond the narrow focus of issues related to the war," says Mr Rick Boucher, a Democratic congressman. "We are now where we should have been a decade ago."

In particular, Washington *hopes for a wide-ranging trade* pact committing Hanoi to a radical overhaul of its Soviet-era trading regime and preparing it for entry to the World Trade Organisation. The US wants Vietnam to relax credit restrictions in *the fledgling private sector, level* the playing field between US and local business and open sectors such as insurance and rice trading to US companies.

Those are tough demands. They are hard for Vietnam – one of the world's remaining communist systems – to swallow, requiring it to dump a raft of economic privileges that help to prop up its political elite. Many of Vietnam's 6,000 state-owned enterprises have impeccable connections with the ruling Communist party.

"The key thing about the comprehensive trade agreement is that it challenges both the economic behaviour and the structure of the government of Vietnam," says Mr Michael Samuels, a Washington-based trade consultant. A US official says: "In Vietnam there is always a certain tension between the desire to let in the west, and the wish to maintain party rule."

The two sides are still worlds apart on trade issues. It has taken more than a year for negotiators to agree on a draft text for the putative trade pact, as US officials have wrestled to understand Vietnam's arcane trading system. Negotiations have been marked by Vietnamese suspicion of US motives, stoked by broadcasts from Radio Free Asia, a US-government funded station that aims to promote democracy.

Vietnam's trading regime is still restrictive. Import substitution remains the bedrock of economic policy, and exports, many of which are subject to duties, consist mostly of commodities such as rice, coffee and crude oil. Manufacturing is lame, with electric fans, handicrafts and a special bicycle made entirely of bamboo in a list of top products.

Although trading company monopolies have been eroded, the government still uses a licensing system to restrict foreign trade. This is a hangover from the past that has survived the theoretical dumping of command economics.

All imports have to be made through an importer – always a state-run company – licensed by the trade ministry. Private companies wishing to trade would be unlikely to be able to raise the $200,000 deposit demanded for such licences.

Any erosion of this arrangement would meet with stiff resistance from vested interests in the Communist party. That is hardly surprising. A confidential report by the OECD this week says import tariffs account for about a quarter of government revenues.

In spite of the obstacles, Vietnam has made significant progress on trade since 1990, when the collapse of communism in the Soviet Union removed the backing of its main benefactor. About 30 per cent of Vietnam's trade is now with members of the Association of South-east Asian Nations (Asean), which it joined in 1995. *Trade with the US, although still* relatively limited, has quadrupled to nearly $1bn since President Bill Clinton removed an economic embargo in 1994.

Hanoi, moreover, is *nominally* committed to tariff cuts under the rules of the Asean Free Trade Area, which require all import duties to be reduced to between zero and 5 per cent by 2006.

Reformers in the Vietnamese government applaud liberalisation as a way of speeding up Vietnam's integration into the regional and global economy. They are also acutely aware of the need to clinch most favoured nation status from the US as a way of tackling the country's worrisome trade deficit, which reached $4bn last year.

"We have been accustomed to breathing with the aid of foreign oxygen, and when the aid was interrupted [with the collapse of the Soviet Union], businesses had to rely on the subsidy of government. This should be stopped," says Mr Le Van Triet, trade minister

Yet he and his supporters know they will have a difficult time selling the trade agreement to conservatives, who fear exposing lumbering state-owned companies to external competition.

This makes it all the more puzzling for some observers that Washington is insisting on such a "comprehensive" trade agreement, especially given the apparent geopolitical logic of forging closer ties with Hanoi. The US and Vietnam appear to be united on at least one issue – their suspicion of Chinese muscle-flexing in the region.

"They are applying their trade machinery on Vietnam and that's very strange to me," says one European diplomat. "You could imagine a more lenient approach in order to guarantee some special strategic links."

US diplomats play down the geopolitical aspect of the relationship. They dismiss any suggestion of inflexibility, insisting that the agreement is consistent with Vietnam's existing commitments. "Everything we're doing here is very much in line with their *doi moi* [reform] policy and their announced policy of entering Apec [the Asia-Pacific Economic Co-operation forum] and WTO. We're simply piggybacking on their policies," says Mr Desaix Anderson, the departing chargé d'affaires at the US embassy in Hanoi.

There are certain matters on which the US cannot be flexible, because it is determined "not to accept with other countries what it has found unsatisfactory in its past agreements with Japan and China", says Mr Samuels, a former US ambassador to the General Agreement on Tariffs and Trade.

US trade officials explain their approach by pointing to a need to satisfy the US business community, whose support they say will be critical in driving the deal through Congress. In the *Republican-dominated House, a small* but vocal minority is still hostile to economic normalisation with Vietnam. It managed to hold up Mr Peterson's appointment for six months.

Mr Joe Damond, who heads the *team negotiating* with the Vietnamese, acknowledges the difficulties. "The strategy is to sell the agreement on its merit, that it's in the US commercial interest," he says.

Some might question the interest of US businesses in a market as small – relative to China – as that of Vietnam. "The fact is this is only a $25bn economy and, even if it grows by 15 per cent a year, compared with a lot of the other places we do business with it is small," says a Hanoi-based executive from a US contractor.

US investors are sixth-ranked in Vietnam, with $1.1bn of commitments. Companies such as earth-moving equipment maker Caterpillar, aircraft maker Boeing and General Electric appear to be more concerned about receiving federally backed support from bodies such as the US Export-Import Bank and the Overseas Private Investment Corporation than with broader trade issues.

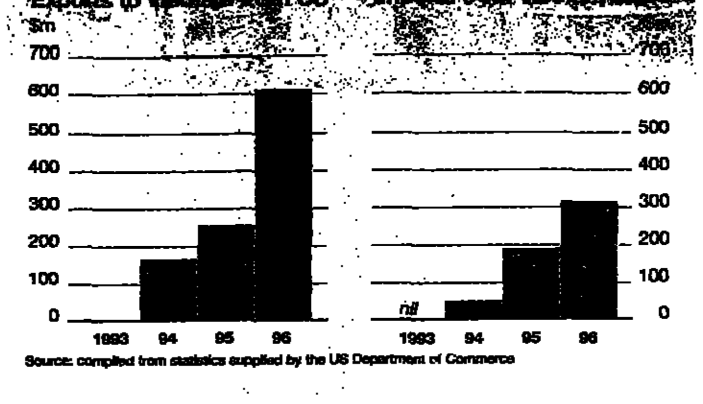
However, Mr Peter Ryder, a US businessman with five years' experience in Vietnam, says: "A good trade agreement would very definitely have a positive effect on US business interest in Vietnam. The question is, does such an animal exist?"

Washington appears happy to wait until Hanoi has come to an internal consensus about how to move forward. "If they want a trade agreement, they'll have to lay out some [plan] for achieving those goals," says Mr Anderson, the US chargé d'affaires. "There are 26 countries trying to get into the WTO now, [though Vietnam] could easily jump the queue."

The arrival of Mr Peterson as the first US ambassador since the war could complicate negotiations still further. The US presence will highlight human rights issues. Trade negotiators have already made it clear that successful trade talks will depend on progress in this area.

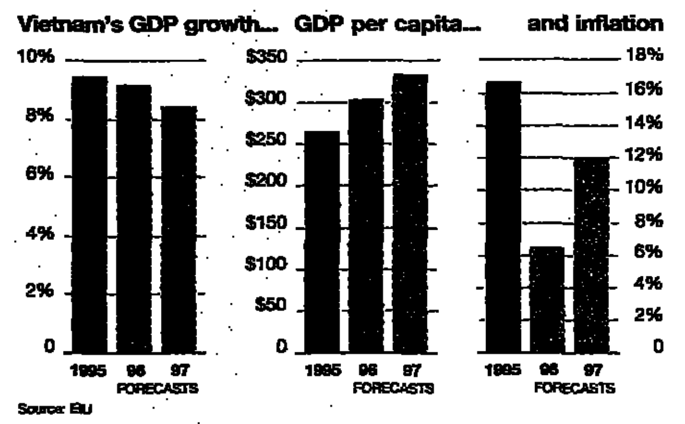
Hanoi will also be very cautious about upsetting Beijing. "Vietnam would be very leery of sending any kind of [provocative] signal to China," says a US official in Washington. "We could perhaps enter into some sort of exchange of views on security issues but anything that could be perceived as an alliance would be anathema to Vietnam because of the danger of upsetting China."

All this may mean a long, drawn-out process before agreement is reached. Vietnam is "committed conceptually to what the western market preaches", says Mr Ryder, the Vietnam-based US businessman. "But I can't imagine the system surviving such a radical change overnight."



Source: compiled from statistics supplied by the US Department of Commerce

Source: World Bank



Source: EIU

Vietnam's main trading partners, 1996 ($m)

	EXPORTS TO	IMPORTS FROM
Japan	1,896.4	1,260.9
Singapore	1,421.2	2,075.6
S. Korea	558.3	1,858.6
Taiwan	540.0	1,263.2
China	340.2	329.0
Hong Kong	311.2	795.4
Germany	228.0	288.2
US	204.2	245.8
Switzerland	151.8	347.7
France	145.0	416.8

Source: OECD

· OBSERVER ·

Sugar Daddies

■ Lonrho's sale of Lonrho Sugar Corporation will evoke bitter-sweet memories for Tiny Rowland, the merchant adventurer who built and lost a business empire.

It was sugar which, more than three decades ago, helped new-boy Rowland rescue the near-bankrupt London and Rhodesian Mining and Land Company and fuelled his buccaneering efforts to build an enduring multinational corporation.

The refusal of Booker McConnell, one of the world's big sugar producers, to heed a request in 1963 from Dr Hastings Banda, Malawi's new prime minister, to construct a sugar plantation and refinery gave Lonrho its big chance. Eighteen months after the bush was cleared, the Sucoma complex was operational, an early example of Rowland's effective but highly controversial politico-business skills.

Ten years later, with Lonrho's rising fortunes again reversed, Rowland remained as determined as ever to grow sugar across Africa. With estates in Malawi, Mauritius, Swaziland and South Africa, he wanted others as far afield as Guyana, Togo, Pakistan and Iran. His ambitions were never fulfilled and the sugar interests sold yesterday didn't extend beyond the four countries already under Lonrho's belt 25 years ago.

Right up to the end, Rowland kept his sweet business tooth. In 1992, with Lonrho coming undone at the seams, shareholders turned up to demand explanations for the group's record debt and loss of direction. The light dimmed for a film marking "a year of celebrations at Lonrho's estates". On screen, Rowland stood alongside Banda, celebrating the Sucoma sugar estate's 25th birthday. Before long, Banda had been ousted. Rowland shared the same fate two years later.

Off line

■ Filial piety and love – or perhaps frustration – has cost Hongkong Telecom its best-connected staffer.

Lu Gang, son of Lu Ping, Beijing's top man on Hong Kong affairs, and until earlier this week head of Hongkong Telecom's China division, quit for "personal reasons" – in this case marriage and desire to spend more time with dad.

While these may be eminently suitable motives for a young blade steeped in Confucian belief, they could prove incompatible in Lu's case.

Apparently, his wife is a violinist who spends much of her time in the US while Lu senior is more likely to be found back at the ranch in Beijing.

Thus cynics see a darker reason for his departure. They say he has either failed to broker a deal to bring on board mainland shareholders, and decided to call it quits after two years of going nowhere, or has stitched up a deal he would rather not hang around to be associated with.

In which case, he may prefer *to join his wife and fiddle,* leaving Britain's Cable & Wireless and other shareholders in the company to face the music.

Time machine

■ The "Millennium Bomb" which renders some computers incapable of distinguishing this century from the next is already causing confusion in Sweden.

Eric Malmstrom, from the telecoms operator Global One, tried to use his newly delivered credit card to pay a parking fee, only to be told by the carpark computer that his card was past its expiry date.

"It had a valid date ending January 2000. The card says '01 00'," Malmstrom complains. "Obviously, it has not been programmed to handle dates on the other side of 1999".

Sounds like a taste of things to come, unless the computer industry gets its wires uncrossed – fast.

Still swinging

■ The honeymoon between *Rupert Murdoch and Tony Blair,* Britain's barnstorming new prime minister, may not prove particularly enduring.

With two Murdoch tabloids, The Sun and the News of the World, claiming to have helped swing the last two elections – in different directions – the media tycoon is making it quite clear that his own views on the subject gripping Europe could swing once again.

Asked by New Yorker magazine how long Murdoch would support Blair, the News Corporation chairman replies: "It depends on what Labour does. If Blair heads towards a *single European currency,* we would be very opposed."

Murdoch goes on to argue that the goal of a single currency is being pushed by a political elite across Europe but claims the objective is completely out of touch with popular feeling.

For good measure, the man whose influential empire spreads around the world also thinks "it's bad economics". Sounds to Observer like a possible floating voter.

The Financial Times

50 years ago

Block Them Now
Mr. Churchill has endorsed the recent demand of the Chancellor of the Exchequer for a drastic scaling-down of the sterling war debts. The Government can therefore enter the coming vital talks with India, Egypt and the other principal creditors in the knowledge that it has the support of the entire country. From the tone of overseas comment, it is evident that not all the negotiations will be conducted in a "friendly atmosphere."

World Bank's First Loan
While some points, notably interest and commission, are still under negotiation following investigation at the World Bank, *I am able to* report that the initial loan to France of $250 millions will be for a term of thirty years, with amortisation to start in the first year without a period of grace. The negotiations began with the formal application by France in November for $500 millions.

Fewer Trains This Summer
Advertisement: "To enable coal to be saved for next winter, the Government has ordered the train services to be cut by 10% from June 16th as compared with last summer. The public will understand that this may mean overcrowding on holiday trains at weekends."

FINANCIAL TIMES
Friday May 9 1997

Move would help provide legal protection

Bre-X chief seeks Caymans residency

By Clay Harris in London, Manuela Saragosa in Jakarta and Reuter in Grand Cayman

The man who "discovered" the non-existent Busang gold deposit in Indonesia has applied for permanent residency in the Cayman Islands, a status that would help to protect him against any legal actions in North America.

Mr John Felderhof is head of exploration for Bre-X Minerals, the Canadian company whose Busang deposit, claimed to be the world's largest, has been exposed as a fraud.

Bre-X's shares, which peaked at C$28.85 (US$20.60) in 1996, collapsed to 9 cents this week before being delisted by the Toronto Stock Exchange, leaving thousands of shareholders nursing huge losses.

A Dutch-born Canadian citizen, Mr Felderhof made about C$42m by selling Bre-X shares in 1996. He and his wife are in seclusion on their $2.9m estate in Vista del Mar, a private gated community in Grand Cayman. Their application for permanent residency on the offshore haven was confirmed as an officer from the Royal Canadian Mounted Police arrived in Indonesia.

Mr David Walsh, Bre-X's founder and chairman, complained this week that a fraud had been perpetrated against his company.

Indonesian police have started gathering evidence to back up a report by independent auditors Strathcona Mineral Services that tests were falsified. They have requested information from the mines and energy ministry.

The Philippines embassy in Jakarta said it had received an Indonesian police report which concluded that Mr Michael de Guzman, the senior Bre-X geologist who "co-discovered" Busang, had committed suicide. Mr de Guzman, a Philippines citizen, was reported to have plunged from a helicopter in March on his way to a meeting at which Bre-X's claims on the size of gold deposits at Busang were to be challenged. Officials say the police report's conclusion is based on circumstantial evidence and the testimony of the helicopter pilot and co-pilot.

Cayman law allows permanent residency for individuals who invest more than $250,000 in property. If the Felderhofs' application succeeded, they could not be deported without an extradition hearing, which can be a lengthy process.

In a statement faxed from Grand Cayman on Sunday, Mr Felderhof said: "I know that I was not involved in a fraud. I also find it very hard to believe anyone on my staff was involved in a fraud."

● Mr Felderhof did not work for Pelsart Resources as reported on Wednesday. He was a director of Jason Mining, an Australian mining company which was a joint venture partner with Pelsart in a number of contracts in Indonesia. These included the Mirah discovery, where Mr de Guzman was project manager.

Editorial Comment, Page 19

Fuji plan to open US film plant may spark price war

By Gwen Robinson in Tokyo

Fuji Photo Film is to begin manufacturing 35mm colour film in the US for the first time, the company announced yesterday.

The move will challenge the Japanese company's US rival, Eastman Kodak, in its home market and possibly trigger a price war between the two competitors.

Fuji said it would spend about $200m to build a film-manufacturing facility and expand existing photographic-paper manufacturing capacity at its North American manufacturing complex in Greenwood, South Carolina.

To date, Fuji has imported all film sold in the US from its factories in the Netherlands and Japan and has been required to pay shipping costs and import tariffs of 3.7 per cent.

The Greenwood project will add another 100 jobs to the plant's workforce of 1,100 and bring total investment in the facility to about $1bn.

Fuji said the new factory would have the initial capacity to produce 100m rolls of colour photo film annually. The expansion of existing facilities will boost production of colour photographic paper by about 50 per cent to an annual 1.6bn sq ft.

Mr Minoru Ohnishi, Fuji's chairman, said: "Now, most of our primary imaging products sold in the US are, or soon will be, manufactured in the US."

Fuji's move comes amid a bitter trade dispute between Fuji and Kodak, who are arguing their case at the World Trade Organisation.

In May 1995 Kodak filed a petition with the US government under Section 301 of the US Trade Act, charging "anti-competitive trade practices" in the Japanese market for consumer photographic film and paper.

Fuji responded with a 595-page rebuttal charging that Kodak's arguments were based on "misrepresentation of facts and fanciful logic".

The US trade representative took the case to the WTO, which established a panel last October to examine the case. Washington made its first submission to the panel in February this year, followed by Japan's submission in April.

The three-member panel held its first meetings on the case on April 17. A final decision is expected in October, but an appeal – inevitable, according to officials on both sides – could stretch the case into next year.

Analysts say Fuji's decision to manufacture film in the US will cushion, to an extent, the impact of possible penalties in the WTO trade case.

Nato, Russia close to deal

Continued from Page 1

multilateral agreement that sets ceilings on non-nuclear armaments and troops in Europe, be used to calm Moscow's fears of a military build-up to the east.

"We're optimistic that the gap will be closed," said a Nato diplomat. "The Russians do want to sign this agreement."

Moscow is hoping for a say in Nato decision-making, but the best it is likely to get is a non-binding voice through a new Nato-Russia council.

Sanwa sells bad loans

Continued from Page 1

realised that sooner or later we will have to realise the bad loans."

The structure of the securitisation means Sanwa is no longer the guarantor for the loan – it has sold the loan to a company in the Cayman Islands which has turned it into euroyen bonds and then sold these to Japanese life insurance investors.

Sanwa has also been told by the Ministry of Finance it will not be penalised for tax purposes on the agreement. "This was a real Christmas present," Mr Kobayashi said.

The tax treatment of securitisation agreements is currently unclear and has been a key factor holding back the development of the market.

Australian PM in bid to curb Asian immigration row

By Nikki Tait in Sydney

Mr John Howard, the Australian prime minister, yesterday launched his strongest attack on Ms Pauline Hanson, the controversial politician whose opposition to Asian immigration has provoked a virulent "race debate" in the country.

Ms Hanson was "wrong when she says that Australia is in danger of being swamped by Asians", the prime minister said at the launch of the Australian branch of the Asian Society, a New York-based group which was founded by the Rockefeller family in the 1950s to promote better relations between the West and Asia.

"Her...political campaign...seeks to exploit fear and instability, without offering solutions or hope," he said in his attack on the independent member of parliament.

The society has won strong backing from BHP, the country's largest company, and the University of Melbourne. Mr Hugh Morgan, chief executive of Western Mining and the first chairman of the society, said yesterday: "Long-term relationships with Asia are very much on the radar screen."

Ms Hanson began her tirade eight months ago and was swiftly denounced in Asian countries.

Mr Howard's immediate concern was that Australian companies operating in Asia would suffer, as more than half the country's trade is in the region. "It is impossible to imagine a prosperous and successful Australia which is not deeply engaged with Asia," he said.

Mr Howard said Ms Hanson, who has launched her own political party, had tapped into a significant vein of disquiet in Australian society. "She echoes concerns about the pace of change and the pressure that parts of our community are under," he said.

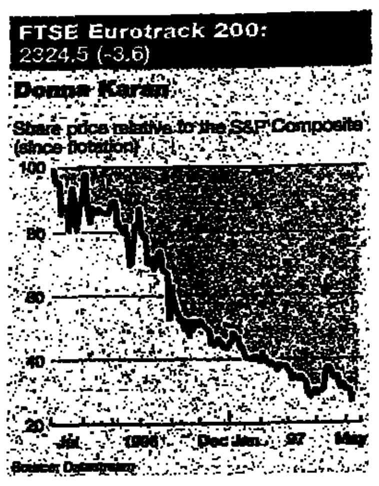
Ms Hanson yesterday highlighted what she said were Australians' economic fears. "Go and ask the fire brigade in Cabramatta [a Sydney suburb with a large Vietnamese population] why they have to learn Vietnamese," she said in a television interview.

Mr Ali Alatas, Indonesia's foreign minister, yesterday said: "It [the Hanson affair] is damaging for Australian-Asian relations."

However, last week, Ms Rafidah Aziz, Malaysia's trade minister, said the controversy should not affect bilateral trade. "We are more mature than that," she said.

THE LEX COLUMN

Fashion victim



Reeling from an 86 per cent collapse in first-quarter profits, Donna Karan should perhaps rename its DKNY brand DK-KO. But though the New York fashion house looks pretty punch drunk, there is not a hair out of place at some smarter-looking rivals: while Donna Karan's shares have fallen 60 per cent since its flotation last July, Gucci stock has trebled in two years.

There are good reasons for this dichotomy. Although the luxury goods market is growing at over 10 per cent a year, much of the growth is coming from the Far East. Louis Vuitton, Hermès and Gucci, with their global distribution networks, have been able to tap into Asian demand. The smaller US houses, focused on their home market, have not. Second, Donna Karan is still primarily a clothing operation, with little presence in more lucrative leather goods, shoes and silks. Its gross margins are below 30 per cent against over 60 per cent at the top European houses. And Donna Karan has been less deft at broadening the appeal of its brand than other US designers such as Ralph Lauren and Tommy Hilfiger, which both have successful sportswear and perfume businesses.

That does not mean the better fashion houses can rest easy. Their market is notoriously cyclical and young consumers are being lured away by newer, sportier brands such as Nike, Adidas and Diesel. It is worth noting that Investcorp, the bank behind Gucci's revival, recently took control of Helly Hansen, a Norwegian skiwear maker.

France

France's forthcoming election is proving a more unnerving affair than many expected. True, current opinion polls do not go so far as to predict a Socialist parliamentary majority. But they do show a steady growth in the left's share of the vote. And a surprisingly hard-nosed debate is shaping up around two issues.

The first is economic and monetary union; although the Socialists are not arguing against Emu they do want to rewrite the entry requirements to a degree the Germans would surely refuse to swallow. Second, and just as fundamental, is domestic economic reform. While the right is making no bones of the need for further medicine to give the economy more élan, the left is still talking the cushy language of state-created jobs and shorter working hours. In short, the election result will have powerful symbolic significance. And a victory for the right – still the most likely outcome – would doubtless be celebrated in the markets. But investors should not get carried away. For one thing, even if the right wins its majority will be drastically reduced. And all its energies are likely to be directed at getting the budget deficit down to join Emu. Not only would this further fiscal tightening act as a damper on growth; it is also difficult to believe such a weakened government would have much appetite remaining to support investor-friendly restructuring of French industry.

Sterling

The slide in sterling yesterday may have been based on a false premise, but it was not an implausible one. The prospect of sterling's re-entering the European exchange rate mechanism any time soon certainly appears far-fetched. But the idea that the government might want a cheaper pound is not. The pips are squeaking in the export sector and chancellor of the exchequer Gordon Brown's statement that he would like a "stable and competitive" pound falls conspicuously short of favouring a strong one.

Given that the government has all but ruled out joining the single currency in January 1999, early entry into the ERM makes little sense. Following the 1992 debacle, when sterling tumbled out of the ERM after less than two years, there would be enormous political resistance. And even if the government did decide to make a dash for early Emu entry, it is not clear that ERM entry would be a necessary pre-requisite. Still, a closer relationship with Europe will inevitably focus attention on sterling's fair value within a fixed exchange rate mechanism. And with most estimates around DM2.50-DM2.60, compared with DM2.77 now, this means a bias in favour of a weaker pound. If Mr Brown pursues the path of fiscal virtue in his summer Budget, reducing the need for higher interest rates, this line of argument will gain added force. Short term, the strong dollar will underpin sterling. But it is a nice irony that just as Britain acquires the crucial ingredient of a strong currency – an independent central bank – talk should turn to sterling weakness.

BTR

At a company as complex as BTR, with over 100 "principal" subsidiaries, surprises are inevitable. But even in New BTR – the more transparent, growth-oriented group being cultivated by Mr Ian Strachan with vats of new top management blood – surprises have been exclusively bad. The latest trading shock was shrouded in comments on strong sterling's debilitating effect. But the real surprise was that, despite a £350m restructuring programme and improvements from recent acquisitions, constant currency profits this year are set to fall again.

Mr Strachan's strategy for delivering profitable growth still looks sound. But clearly the switch from an emphasis on profit margins to a push for sales growth is incurring more pain than gain. Margins are falling, and sales growth is not compensating. Indeed, it could be several years before BTR matches its 1995 profits, the year before Mr Strachan's appointment. And this latest setback emphasises the difficulties of controlling a business portfolio as diverse as BTR's.

Recovery will come and, at a 30 per cent discount to the stock market's prospective price-earnings ratio, it is not in the share price. But at Unilever, the share price rally has been built on confidence that Mr Niall FitzGerald will rebuild momentum within a similarly sprawling empire. Mr Strachan has lost that trust. And until he demonstrates the second-half recovery which he is promising, the shares are unlikely to respond.

Additional Lex note on the private finance initiative, Page 27

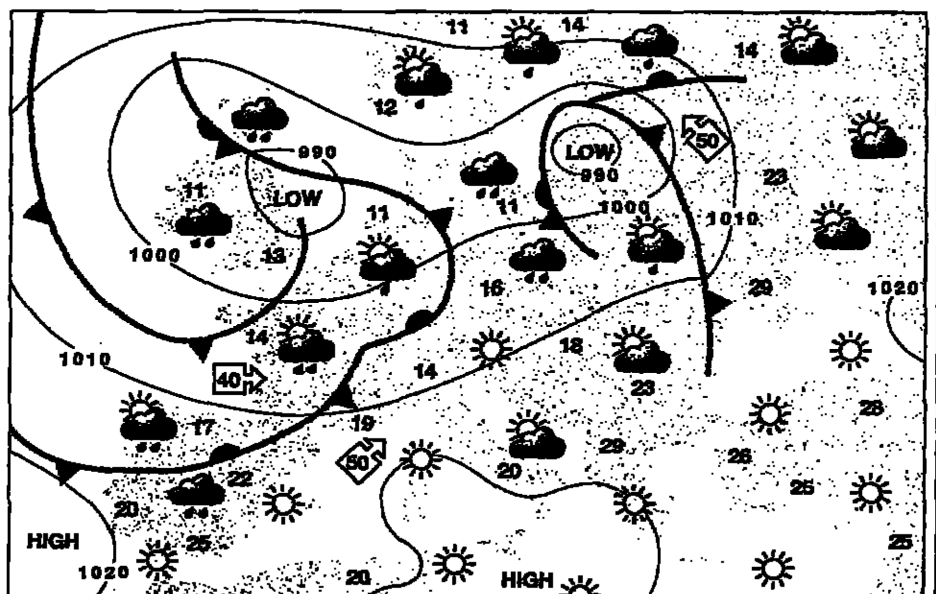
FT WEATHER GUIDE

Europe today

Western Europe will continue to have showers and strong winds. Southern Europe will have sunshine and pleasant temperatures.
There will be cloud, rain and showers around an area of low pressure from the British Isles to the Baltic states. It will be very windy, especially over the Baltic Sea and the Atlantic coast of France.
It will be sunny over Turkey, southern Spain and the Balkans, where temperatures will exceed 25C. Maximum temperatures may reach 30C in parts of Turkey.
During the afternoon, isolated showers are possible in the Balkans.

Five-day forecast

Little change is expected during the coming days.
Low pressure will continue to bring cloud and rain over western Europe.
However, temperatures will rise slightly.
High pressure over the Mediterranean will bring sunshine and pleasant temperatures.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	sun 27	Caracas	sun 30	Faro	cloudy 20	Madrid	fair 22	Rangoon	fair 33
		Belfast	shower 11	Cardiff	shower 12	Frankfurt	rain 15	Majorca	sun 20	Reykjavik	cloudy 8
Abu Dhabi	sun 32	Belgrade	shower 20	Casablanca	sun 21	Geneva	rain 16	Malta	sun 19	Rio	fair 26
Accra	fair 31	Berlin	rain 16	Chicago	cloudy 12	Gibraltar	fair 22	Manchester	shower 10	Rome	fair 20
Algiers	sun 23	Bermuda	fair 22	Cologne	shower 14	Glasgow	rain 12	Manila	cloudy 34	S. Frsco	sun 21
Amsterdam	shower 11	Bogota	cloudy 19	Dakar	fair 27	Hamburg	rain 13	Melbourne	shower 14	Seoul	sun 25
Athens	sun 25	Bombay	sun 32	Dallas	cloudy 24	Helsinki	rain 14	Mexico City	fair 26	Singapore	fair 33
Atlanta	thund 24	Brussels	shower 12	Delhi	sun 35	Hong Kong	rain 27	Miami	fair 32	Stockholm	rain 9
B. Aires	fair 26	Budapest	fair 18	Dubai	sun 33	Honolulu	fair 28	Milan	rain 14	Strasbourg	shower 15
B.ham	shower 11	C.hagen	shower 10	Dublin	shower 12	Istanbul	sun 26	Montreal	rain 12	Sydney	windy 17
Bangkok	shower 39	Cairo	sun 31	Dubrovnik	shower 19	Jakarta	fair 31	Moscow	cloudy 23	Tangier	fair 21
Barcelona	fair 18	Cape Town	sun 22	Edinburgh	rain 10	Jersey	shower 13	Munich	rain 17	Tel Aviv	sun 30
						Karachi	sun 34	Nairobi	fair 26	Tokyo	fair 20
						Kuwait	sun 34	Naples	fair 19	Toronto	rain 16
						L. Angeles	sun 27	Nassau	fair 32	Vancouver	fair 18
						Las Palmas	sun 23	New York	shower 20	Venice	shower 18
						Lima	fair 26	Nice	cloudy 20	Vienna	cloudy 18
						Lisbon	cloudy 20	Nicosia	sun 27	Warsaw	shower 14
						London	shower 13	Oslo	cloudy 14	Washington	shower 23
						Lux.bourg	shower 10	Paris	shower 13	Wellington	fair 14
						Lyon	rain 19	Perth	fair 21	Winnipeg	fair 12
						Madeira	fair 20	Prague	rain 16	Zurich	rain 13

PENSION FUND INVESTMENT

The daunting demographic pressures faced by state pension schemes is generating fresh interest in funding methods around the world. **Barry Riley** reports

Baby-boomers look to their old age

In July, Mexico will introduce a new social security system requiring compulsory contributions into personal pensions accounts. This year, too, funded private pension plans will be launched in France and Italy for the first time – although on an optional basis.

Fund management firms around the globe are targeting attractive growth opportunities in pensions. Continental European banks are buying up management companies in the US and the UK in search of expertise in equities and global bonds. The Americans, in particular, hope to exploit the new scope as Japan opens up its pensions sector – which is, however, suffering a severe financial crisis.

Everywhere, the normally dull subject of pensions funding is generating argument and debate. In the UK, the now deposed Conservative government's scheme to privatise the state basic pension scheme led to controversy during last month's parliamentary election campaign.

Across the Channel, the limited French plans for top-up funds have attracted bitter criticism from trade unions which see them as undermining the social consensus and opening the way, ultimately, to financial engineering and a concentration on Anglo-American-style "shareholder value".

In the US, organisations such as the Cato Institute have been calling for the social security fund to be privatised, so that US citizens can gain the benefit of higher stock market returns. Meanwhile, an extraordinary surge in personal retirement accounts in the US – especially 401(k) employer-sponsored plans – has provided much of the fuel for the long bull market on Wall Street, as the baby-boom generation saves for its old age.

Around the world, countries of widely different types are encouraging the establishment of pension funds.

In the case of developing countries, an important motive is the creation of pools of domestic long-term capital that can help finance economic development.

For advanced countries, the aim is usually to supplement established pay-as-you-go social insurance schemes which are buckling under the strain of adverse demographic trends.

Whatever the particular circumstances, the concept of funding is attaining unprecedented popularity. One reason is that investment conditions have been remarkably benign in many parts of the world for two decades. Real returns on bonds have been generous, and stock markets in the US, Europe and many of the emerging economies have delivered bumper returns.

Meanwhile, state pension schemes face daunting demographic pressures over the next few decades. In 1990, the proportion of the population of Organisation for Economic Co-operation and Development member states over 60 years old was 18 per cent, but this will rise to 31 per cent by the year 2030. Germany's ratio will reach 35 per cent, and Japan's will rise especially rapidly from 17 to 33 per cent over the period. Pressures in the US and the UK will be somewhat less, however.

Could funding help to generate the wealth needed to meet such liabilities? Building up pension funds is not a guaranteed solution. There is little obvious correlation between the size of pension funds in various advanced economies and the savings rate or the rate of economic growth.

The US has long had sizeable pension funds – worth some 70 per cent of GDP – but a low national savings ratio and, until quite recently, a relatively poor growth rate. One connection is important, however. Countries with large pension funds tend to have large and active stock markets. The US stock market now has a value of more than 100 per cent of GDP, whereas Germany's is only about 30 per cent of GDP.

This used not to matter very much. Germany's bank-dominated financial system functioned very well. But recently there have been signs that America's increasingly aggressive institutional investors have been putting more pressure on companies to perform.

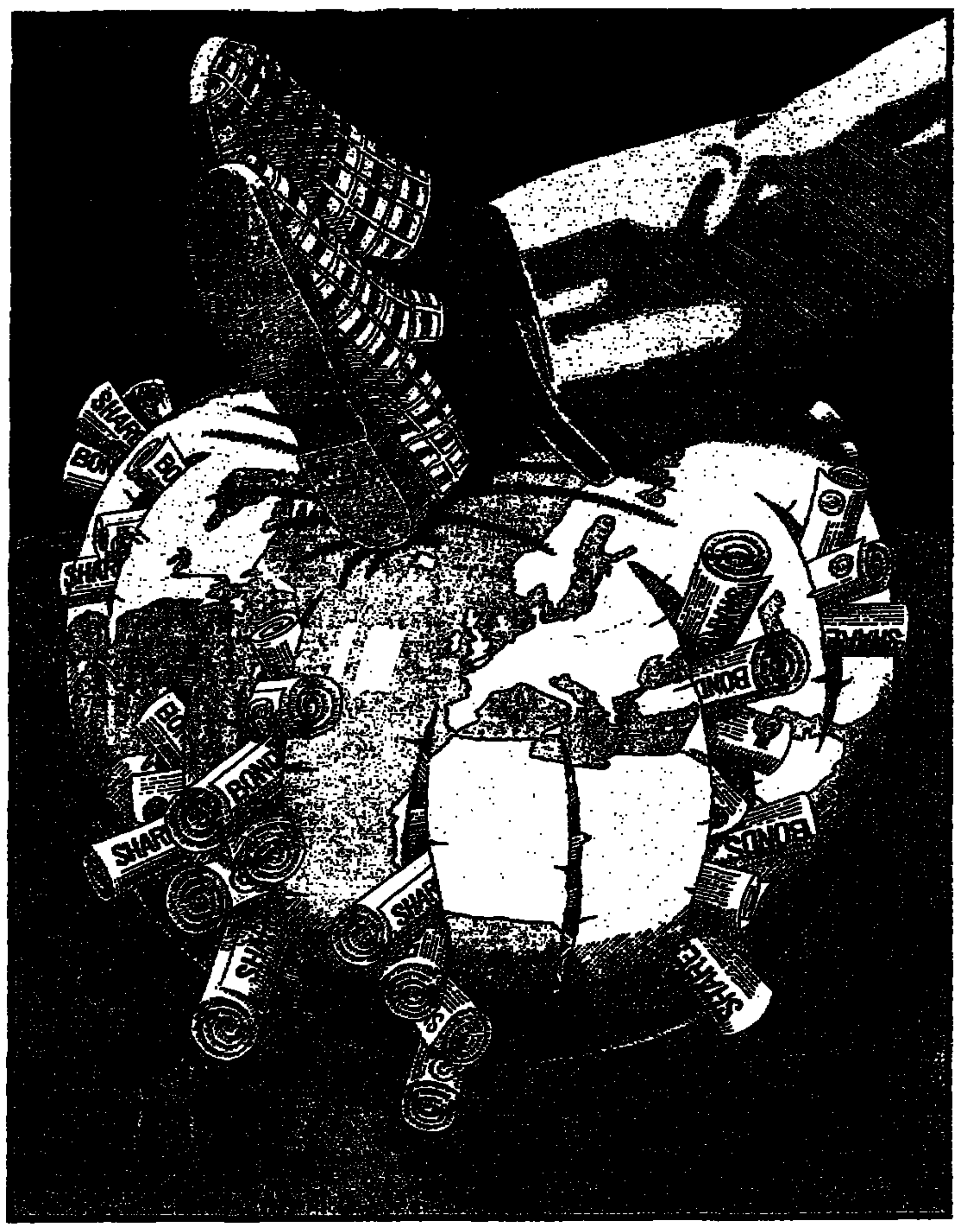
Restructuring has transformed profitability, and at the same time the existence of a large pool of risk capital has stimulated the growth of exciting new industries in computers, biotechnology, communications and the media.

Recent expansion of the 401(k) market, focused on aggressive growth mutual funds, has given extra momentum to these trends. But there are worries that a dangerous stock market bubble has been created.

It is easier to be confident of the benefits of pension funding in less developed economies which typically lack a stable pool of domestic capital. In these circumstances, either growth is stunted through a lack of investment funds or there is heavy dependence on foreign capital which may be unreliable and even subject to panic withdrawals – as happened in Mexico in 1994.

Chile's private pension funds – the AFPs – now amount to some 40 per cent of GDP and the country's economic growth rate has averaged 7 per cent over the past decade. The system (set up in 1981) is widely admired as a model for many countries in Latin America and Asia.

Pension funding can sometimes run into trouble, however. The crisis building up in Japan was highlighted last month by the failure of Nissan Mutual Life, a company largely brought down by its inability to meet the guarantees it had given to pension schemes.



Japanese pension funds are being crippled by the low returns available in the domestic markets. Share prices in Japan have on average been falling for seven years. Meanwhile, government bond yields have been driven down by the recession and the cheap money policy to under 2.5 per cent, compared with the actuarial assumption of 5.5 per cent returns.

A large part of the assets of Japanese schemes has traditionally been invested in guaranteed contracts with life companies, but the guaranteed rates have been sharply cut in recent years (although from the life companies' point of view, not by enough). Following deregulation, assets are being shifted into riskier investments in search of higher returns, and increasingly are going overseas where returns are much higher – albeit accompanied by a currency risk.

Japan's crisis is a reminder that pension funds can never offer total security. The reason why countries such as France have ignored the arguments in favour of funding until now is that there are long memories of funds being destroyed in the past by hyperinflation or war.

Pension funds are chronically vulnerable to government interference and exploitation. Even now there are severe investment constraints in most European countries, supposedly in the interests of prudential control. It is very tempting for governments to steer funds in politically-motivated directions without regard to the consequences for pensioners. Usually the funds are force-fed with the government's own bonds, and are restrained from investing on more than a tiny scale overseas.

The challenge for several of today's ageing economies, however, is that they have surplus savings. Only the heavy accumulation of assets overseas, where returns are higher, will allow such a country to live for an extended period beyond its domestic means in the 21st century when the pensions burden reaches its peak. But this inevitably involves political risks and goes against the grain of pensions nationalism.

Japan, by pursuing a "big bang" deregulation strategy, appears to be facing up to the need for change. European countries such as Germany and France, however, have yet to lower the drawbridge.

IN THIS SURVEY

Production Editor: Philip Sanders

BRITAIN • by Barry Riley

A testing time for managers

The concentration process continued as the sector was stalked by a series of problems

For several years British pension fund consultants have been nervously debating what would happen if one of the handful of fund management houses that now dominate the UK segregated pensions market should hit trouble.

This test has now arrived. Last year, there was a flurry of controversial publicity about PDFM, the unit of Union Bank of Switzerland that is the UK's second-biggest pension fund manager. Its bearish investment supremo Mr Tony Dye emerged from his preferred shadows on to the front pages to justify his defensive strategy which has left clients underexposed to the bull market.

Even worse, the up-and-coming Morgan Grenfell Asset Management was embroiled in a unit trust scandal last September. And no sooner had consultants managed to convince most clients that this was irrelevant to the pensions division than Mrs Nicola Horlick, the MGAM pensions boss, exited in a row that erupted on to the TV screens and into the tabloid press.

Meanwhile another big manager, Gartmore, is also suffering a bad patch for performance. And although Mercury Asset Management and Schroder are still forging ahead, consultants say that pension scheme trustees are becoming concerned by the reduction of choice among the top managers.

This year's FT pension funds table shows that the process of concentration has continued. Corporate events in 1996 included the reverse takeover by Gartmore of National Westminster Bank's investment arm and the combination of the quantitative and conventional businesses of Barclays Bank, following the takeover of Wells Fargo's US quantitative funds business and the formation of the £225bn Barclays Global Investors.

The top five managers are now responsible for an unprecedented two-thirds of the assets represented in our Top 25 table. It is disappointing that there is so little sign of strong competition from further down the list, where many would-be challengers have suffered from indifferent performance.

It had seemed like a golden opportunity for MGAM, which continued to perform strongly for its clients through last year's controversies. But its prospects of winning much more new business in the short run are poor. "It's a dust-settling sort of time," says its institutional marketing director, Mr Rufus Warner.

For all its problems, almost certainly Morgan Grenfell has the best five-year performance figures. But it has turned shy, arguing like Mercury that its clients and benchmarks are too varied for a single number to be meaningful. Mr Warner argues that it is better to cease publishing performance figures after a good year than a bad one.

This leaves the five-year published performance leader rather surprisingly as M & G – unexpectedly because the group's dominant unit trust management company has been going through such a lean time, with key funds stuck at the bottom of their sector performance tables. Indeed, the group is about to reshuffle its unit trusts.

Yet the institutional funds achieved better than median returns even last year, a notably poor one for value managers. Over five years, performance is outstanding. The reason, says Mr William Nott, M & G's director of institutional funds, is that the same managers and research are applied in a different way. "A different set of controls and processes are suitable for institutional clients," he says.

Nevertheless, some consultants say that M & G is too similar in style to PDFM to win much new business. Mr Nott answers this by saying that M & G offers the style but not the strategy. It does not take the asset allocation risks that PDFM has become famous for.

Certainly, PDFM had a poor year in 1996, with the worst house performance of any manager that was willing to release figures to the FT. However, it remains above average on a five-year view and the problems of underperformance by value stocks that dogged it last year seem to be moderating. It had a good fourth quarter of 1996 and may have been slightly above median in the quarter just ended. But its extreme allocation stance – some 11 per cent liquidity, with no exposure to the US – has yet to pay off.

Even the market leader, MAM, has become more defensive, although like most managers it runs lower risks against the industry median strategy than PDFM. It is thought to have enjoyed a good year for performance in 1996, although as usual it declines to disclose any house figures.

Its main pooled fund underperformed last year. For many clients, however, MAM's more flexible style has paid off in the past year or two when growth stocks have shone and value-based rivals have often struggled.

A notable feature of this year's table is the inclusion for the first time of J. P. Morgan, which has long had a big investment office in London, mainly handling international funds for American clients, but which is now making inroads into the UK pensions market. Elsewhere Fidelity, not in the table, has been making a comeback – although its main marketing push is into the defined contribution sector.

British managers are now vulnerable to competition from US firms, especially for international business. The UK firms have seriously misread the US bull market, having stayed underweight throughout, and although they have gained something in continental Europe their global performance has been unimpressive over the past three years.

Meanwhile, in the middle of the table, managers such as Jupiter, HSBC and Cazenove are showing respectable performance figures but do not yet seem to be picking up new clients. The main winners of new mandates last year appeared to be Morgan Grenfell and Schroders, together with J. P. Morgan.

It is a tough business to be in. Robert Fleming used to be one of the top managers of pension funds but has drifted down to ninth place in terms of assets managed. Mr Kenneth Inglis, its investment boss, has worked hard to refine the investment process and install efficient risk controls. But it is still not producing the right performance numbers, being let down last year by overexposure to Japan and by poor Pacific Rim stock selection.

However, like other managers Fleming sees opportunity from shifts in the market place. It is pushing hard for defined contribution business and expects a move towards specialist management on the defined benefit side. "The minimum funding requirement will really concentrate people's minds," says Mr Ingles.

Competition is also fierce in the pooled funds sector, where unitised funds are marketed to smaller pension schemes which cannot afford the costs of running their own segregated portfolios. Several of the life companies which dominated this business in the 1980s, such as Scottish Widows, Confederation Life (now Sun Life of Canada) and Provident Mutual (now General Accident) have performed poorly and are seeing a lot of business shift to the likes of Mercury and Schroder.

Business planners at the leading fund management houses are pondering big changes that may come. A rapid switch towards liability-related benchmarks may follow from the recent Pensions Act. Meanwhile, many companies are closing their defined benefit plans to new members, leading to rapid increases in scheme maturity. This is likely to cause a significant shift to bonds, which has only just begun.

For the time being, however, manager changes have become relatively infrequent as scheme trustees concentrate on other urgent matters arising from the Pensions Act.

But later in the year, they may focus on the question of which managers can offer the combination of performance and style that will meet their new objectives.

Segregated funds: Performance

to end 1996	Over 5 years	Over 1 year
M & G Investment Management	15.6	11.5
HSBC Asset Management	15.2	11.5
Jupiter Asset Management	15.1	12.2
Schroder Investment Management	15.1	11.4
Cazenove	15.0	12.6
PDFM	15.0	9.5
Gartmore Investment Management	14.8	8.8
Clerical Medical Investment Group	14.7	11.1
Henderson Investors	14.5	12.0
CAPS Median	**14.5**	**10.8**
Legal & General Investment Management	14.3	12.2
Kleinwort Benson Investment Management	14.1	13.1
Hill Samuel Investment Management	14.1	11.5
Rothschild Asset Management	14.0	12.7
Prudential Portfolio Managers	14.0	10.6
Fleming Investment Management	13.9	9.9
Invesco	13.8	12.3
Threadneedle Asset Management	13.8	11.6
Newton Investment Management	13.6	10.8
Barclays Global Investors	13.8	10.2
Baring Asset Management	13.8	10.1
Hambros Fund Management	13.2	9.7

Figures are median fund performance, including property. Cazenove, Invesco Asset Management, M & G Investment Management and Newton Investment Management exclude property. Source: Companies

Top 25 segregated pension fund managers (at December 31 1996)

	Value of segregated funds 1996 £m	1995 £m	% change	Number of individual funds 1996	1995	Total funds managed 1996 £m	1995 £m	% change
Mercury Asset Management	54,171	48,690	11.3	1207	1002	[illegible]	[illegible]	[illegible]
PDFM	48,049	44,128	8.9	377	389	53,023	48,338	9.7
Schroder Investment Management	43,000	37,000	16.2	323	[illegible]	[illegible]	[illegible]	[illegible]
Gartmore Investment Management	30,177	17,802	69.5	324	211	43,305	23,455	84.6
Barclays Global Investors	22,992			344		[illegible]	[illegible]	[illegible]
Morgan Grenfell Asset Management	16,254	12,265	32.5	172	155	69,420	60,906	14.0
Hill Samuel Investment Management	10,845	10,890	[illegible]	49	[illegible]	[illegible]	[illegible]	[illegible]
Prudential Portfolio Managers	9,544	9,146	4.4	44	48	90,700	82,100	10.5
Fleming Investment Management	9,118	9,148	-0.3	87	[illegible]	[illegible]	[illegible]	[illegible]
Baillie Gifford	6,492	5,906	9.9	66	68	11,942	11,200	6.6
Baring Asset Management	6,400	7,300	-12.3	59	[illegible]	[illegible]	[illegible]	[illegible]
HSBC Asset Management	5,300	4,900	8.2	211	199	13,400	11,821	13.4
Newton Investment Management	4,483	4,657	-3.7	69	[illegible]	[illegible]	[illegible]	[illegible]
M & G Investment Management	4,052	3,689	9.8	37	40	18,045	16,690	8.1
Jupiter Asset Management	3,270	3,430	-4.7	20	[illegible]	[illegible]	[illegible]	[illegible]
Cazenove	2,366	2,146	10.3	84	85	8,385	8,160	2.8
Clerical Medical Investment Group	2,354	2,311	1.9	38	[illegible]	[illegible]	[illegible]	[illegible]
Legal & General Investment Management	2,314	2,383	-2.9	52	59	43,443	35,325	23.0
J.P Morgan Investment Management	2,239	1,234	81.4	26	[illegible]	[illegible]	[illegible]	[illegible]
Henderson Investors	2,172	1,981	9.6	48	48	12,526	11,180	12.0
Kleinwort Benson Investment Management	2,147	1,683	27.6	82	[illegible]	[illegible]	[illegible]	[illegible]
Invesco	1,924	1,953	-1.5	44	51	55,900	53,800	3.9
Threadneedle Asset Management	1,769	1,616	9.5	9	[illegible]	[illegible]	[illegible]	[illegible]
Rothschild Asset Management	1,069	1,051	1.7	25	29	10,190	10,026	1.6
Hambros Fund Management	1,037	1,418	-26.9	26	[illegible]	[illegible]	[illegible]	[illegible]
Totals	293,638	236,664	14.3	3,800	3,169	1,146,857	919,348	

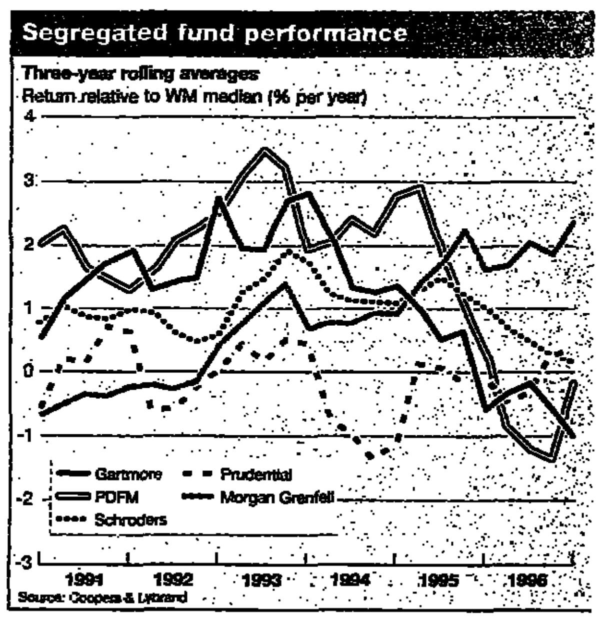
Gartmore Investment Management merger of Gartmore and NatWest Investment Management 6/96. 1995 figures are for Gartmore prior to the merger. Barclays Global Investors merger of BZW Barclays Global Investors and BZW Investment Management 10/96. 1995 figures not available. Source: companies

Pooled pension funds

Largest pooled funds*	£bn	Top 10 returns ** (5yrs)	%
Scottish Widows	4.5	Glasgow Investment Managers	25.7
Mercury Managed Fund Service	3.5	Fuji Inv Management (Eur)	21.4
Scottish Equitable "B"	3.3	Abbey Life	20.8
Schroders Unit Trust	1.9	J. Rothschild (St. James's Pl)	19.4
Prudential	1.7	Morgan Grenfell	17.4
Sun Life of Canada	1.5	Bank of Ireland	17.3
Newton Exempt Fund	1.3	Swiss Life	16.8
PDFM Managed Exempt	1.0	Fidelity	16.8
Gartmore Long Term	1.0	Britannia	16.4
Clerical Medical	0.9	Schroders	15.9
		CAPS median	14.0

Source: CAPS
* At December 31, 1996
** Mixed with property funds, annualised, to December 31 1996, 64 funds measured

Segregated fund performance



Source: Coopers & Lybrand

هكذا من الأصل

هكذا من الأصل

BALANCED MANAGEMENT • by Barry Riley

Re-balancing comes next

A general switch to specific fund benchmarks appears to be under way

Balanced management largely faded from the scene in the US some 20 years ago, in part because of the introduction in the 1970s of new pensions legislation – the Employee Retirement Income Security Act, or Erisa for short – which placed greater responsibilities on plan sponsors.

In the intervening period, the US pension fund scene has become dominated by specialists with narrow investment briefs. But at the same time balanced managers have thrived in the UK, receiving mandates which give them wide discretion to invest in a variety of asset classes.

Now, however, the UK has new legislation on the statute book. The main provisions of the Pensions Act 1995 came into force on April 6 this year and among the many requirements to be fulfilled by that date was one that fund trustees must have produced a Statement of Investment Principles (Sip), setting out clearly the assumptions on which the investment strategy is based. The Sip must be reviewed annually. The trustees are responsible, although the sponsoring company must be consulted.

Even before the Pensions Act there were developing concerns in the UK pensions industry that investment strategies had not been sufficiently responsive to the growing maturity of the average scheme.

A "one strategy fits all" investment culture has been generated, and has worked well enough in the context of a thoroughly benign pattern of investment returns during the 1980s and 1990s. But in a tougher investment environment, mature schemes might face inappropriate risks from their high weightings in equities.

The important point, perhaps, is that so-called "balanced" management of UK pension funds is no longer in any real sense balanced across different kinds of investments. Whereas in the late 1970s UK funds had exposures of 20 per cent-plus to UK fixed interest bonds and another 20 per cent to property (more like 25 per cent for the biggest funds), by the end of 1996 these allocations were down to 6 and 5 per cent, respectively. Equity exposure reached as high as 80 per cent in the early 1990s, although it has eased to 75 per cent, perhaps reflecting the first stages of an important re-balancing trend.

A general switch to specific fund benchmarks appears to be under way. Trustees are being advised to match their investments more precisely to the particular pattern of their scheme's liabilities. Already, according to the performance measurement firm Caps, the proportion of portfolios with specific benchmarks has risen from about 3 per cent to more than 30 per cent since 1990. Most of the benchmarks so far, however, are quite close to the median investment strategy.

It does not seem likely, though, that the UK's pension fund management industry will disintegrate into thousands of small specialists, as in the US. That reflected the peculiar legal and cultural circumstances of American business. In fact there are distinct signs that American plan sponsors are getting tired of dealing with so many boutiques and are moving towards bigger so-called "new paradigm" managers which have the resources to service several different mandates from under one roof.

This is the trend in the UK, too, with the big balanced managers offering a range of specialised services and taking on a variety of different benchmarks. At the same time, there are undoubtedly new opportunities in the market place for management firms which can demonstrate special expertise in areas such as global bonds, emerging markets, high technology stocks or venture capital.

There is also scope for separate advice on asset allocation. At present investment consultants, rather than fund managers, usually help to set the strategic benchmarks, but there is an opportunity for tactical asset allocation (TAA) managers able to exploit short-term anomalies in the valuation relationships between different asset classes – especially between bonds and equities.

In practice, though, it has been hard to find evidence proving that TAA adds significant value. The traditional balanced managers themselves nowadays take only very small bets against peer group asset allocations (PDFM being a notable exception). Still, some of the big managers are offering TAA as a stand-alone service: Prudential Portfolio Managers, for example, has four UK pension clients for this product. Quantitative specialists are also active in this field.

Very high returns on equities (some 19 per cent annually on UK equities for the past 20 years) have skewed allocations but such an equity bonanza cannot continue indefinitely. If the equity risk premium (or excess return) retreats to more normal levels, alternative asset classes will become more competitive.

British funds are likely to invest more extensively in bonds, for example. Index-linked gilts provide a good match for final salary-linked liabilities. Conventional gilts offer lower risks for mature schemes where the trustees are concerned by the large proportion of gilts in their Minimum Funding Requirement benchmark, another imposition of the Pensions Act 1995.

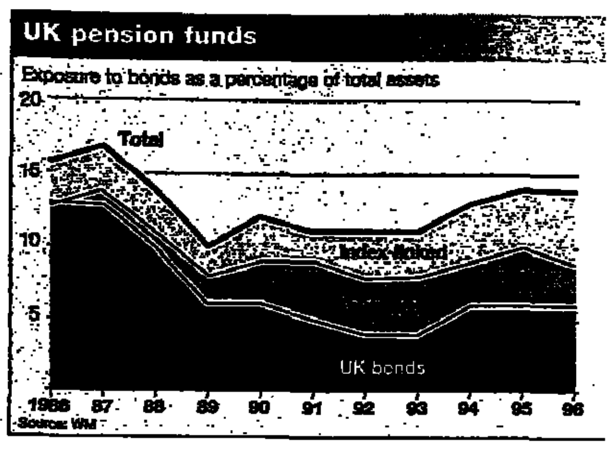
Can property stage a comeback? It should in theory be a good investment for long-term pension funds, but returns have been disappointing.

Attempts are continuing to devise more liquid property-based instruments in which pension funds could invest. Positively, the fact that the property cycle is usually out of sync with the stock market cycle is a potential attraction.

Other possibilities include commodities, where Goldman Sachs has devised an investment formula based upon the rollover of short-term futures contracts. This is claimed to offer good if volatile returns, which are well correlated to inflation and thus provide a hedge for inflation-linked pension liabilities.

At least one UK-based pension fund, that of the European Bank for Reconstruction and Development, has taken a small exposure to commodities by this route.

After balanced management, perhaps, will come *re-balanced* management.



UK PENSIONS ACT • by Brendan Maton

Maxwell scandal's legacy

New legislation raises standards of trusteeship at a high cost in administration

Few industries have been swamped with as much regulation as the occupational pensions industry in the past year. Hundreds of pages of legislation under the banner of the Pensions Act 1995 have been landing on the desks of scheme managers and their advisers, all precipitated by the Robert Maxwell scandal.

The two key areas of the Act for investment are the Minimum Funding Requirement (MFR) and the Statement of Investment Principles. Both are bound to make trustees consider their investment strategy more carefully because they introduce fines for trustees and obligations on employers over funding.

The MFR is a new actual basis for matching assets to liabilities. It is intended to facilitate payment of scheme members' benefits should the scheme be wound up, or a theft on a Maxwell scale occur again.

All salary-related schemes excluding public service schemes are expected to comply with the MFR by 2007 at the latest. After that date, the sponsoring employer will have to make good any shortfall of less than 10 per cent within five years, and restore funding to 90 per cent within 12 months if it falls below that figure.

This obligation means that pension funds have a new risk to take into account when devising investment strategy. First predictions were that funds would increase their gilts allocation at the expense of equities to reduce this risk, but no big switch has yet occurred. Pension funds invested fractionally less in gilts last year than they had in 1995, according to figures from performance measurer, The WM Company.

"It is hard to separate out when funds are moving because of investment returns rather than liabilities," said Mr Eric Lambert, a senior consultant at The WM Company. "But it is not a wholesale shift to fixed interest. Apart from a few large, mature funds, most are just tweaking their allocation."

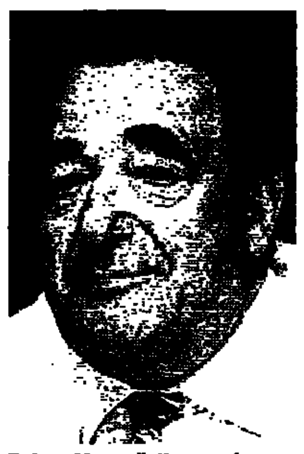
Mr Mark Griffin, executive director at Goldman Sachs' Pension and Insurance Strategy Group, does not believe that increased exposure to bonds is always necessary to reduce MFR risk. Statistics produced by Griffin last year in *Pension Funds: Coping with the Minimum Funding Requirement* suggest that a fund with typical allocation reduced its MFR risk most by cutting overseas equities by a third – hedging the remainder – and putting half of the rest in UK equities and a quarter in gilts and index-linked gilts.

Another approach to minimising MFR risk would bring more business to index-tracking funds.

The MFR is based on long-term assumptions but is adjusted in the short term against three indices: the FT-SE A All Share; the FT-A Fixed Interest 15-year medium coupon; and the FT-A Index-Linked Over Five Years (5 per cent inflation).

Trustees could elect to track these indices with enough of the fund to meet the MFR. They would then be free to pursue a more aggressive investment approach with any surplus.

Mr Andrew Dawson, business development manager at employee benefits consultants Gissings, pointed out that the fund would enjoy lower costs from being mostly invested in index-tracking funds, while clearly identifying the value offered by active managers on the "risk" portion of the fund. He added that a core-satellite approach was already employed by 40 per cent of pension funds in the US.



Robert Maxwell: the pensions scandal precipitated hundreds of pages of legislation

Consultants are already seeing a growth in scheme specific benchmarks as trustees consider the new risk.

"Trustees have to pay greater attention to their own circumstances. There is a trend against following the herd and measuring performance against an industry median," said Mr Andrew Dyson, head of UK pension funds at Mercer Investment Consulting.

The Statement of Investment Principles (Sip) requires pension fund trustees to formalise in writing their attitude towards issues such as the MFR, the nature of investments held by the fund, and risk. The majority view on the statement is that it is of value as a means of getting trustees to reassess their agreements with external fund managers.

"The Sip itself is not an issue, but in drawing it up some trustees have been surprised to learn that there were not as many restrictions on the external fund manager as they thought," said Mr Nigel Taylor, investment partner at actuarial firm Lane Clark and Peacock.

Restrictions range from the maximum held in one stock to use of derivatives and underwriting stock issues. Although it has been fruitful for trustees to reconsider their position on these issues, they have not found their way into many statements in great detail. This is because pensions managers are aware that copies of the Sip are available to members on request.

"The majority of breaches by investment managers are accidental. We did not want these reported in the trustees' annual report because we did not want to unsettle members over things that were inconsequential," said Mr Colin Hartridge-Price, chief pensions officer at British Telecom.

For thousands of less well run schemes, the Sip will be of more benefit. The Pensions Act requires schemes to appoint member-nominated trustees this year, who may not be up to speed on investments. The Sip will assist their education.

The pensions industry is generally content with the Pensions Act because it raises standards of trusteeship, albeit at a high cost in extra administration. The only danger is that some schemes will seek to avoid obligations, either by switching to a money purchase arrangement which is exempt from MFR or to a group personal pension which is exempt from all the main requirements.

This could reduce the amount of money invested in pension funds. Surveys by the National Association of Pension Funds and the Association of Consulting Actuaries have both shown lower contribution rates for money purchase arrangements than final salary arrangements.

Pensioners of the future will lose out, but so could weaker fund managers if there is less money to invest.

CONSULTANTS • by Jonathan Guthrie

Scramble to build global networks

Investment consultants are increasingly forging links with foreign firms

Investment consultants are scrambling to build international advice networks. They aim to be able to provide consistent advice to an international corporation on investing the money of all its pension schemes. So, like the investment managers they study, the consultants need outposts around the globe.

Most UK investment consultancies are departments of actuarial and employee benefits firms. They have been built on the back of valuation work for big final salary schemes. The humdrum business of assessing a fund's liabilities has paved the way to advising on setting investment objectives and selecting managers.

The next step is to start doing that job internationally. But growing by setting up new offices overseas is slow. And expanding by acquisition can be risky and expensive.

An attractive alternative is to form a partnership with a foreign investment consultancy. The most recent business to travel this route is employee benefits firm Bacon & Woodrow which is setting up a joint venture with Callan Associates, a San Francisco-based investment consultancy. The new company will only do international work; in the UK and US, Callan and B&W would continue to operate independently.

Mr Nick Fitzpatrick, a partner at Bacon & Woodrow says: "We are sure that multinationals want to organise their investments for the group as a complete package rather than many separate ones."

According to Mr Fitzpatrick, the alliance with Callan will complement Bacon & Woodrow's membership of Woodrow Milliman, a coalition of employee benefits firms from 22 countries. This operates a cross-referral system for international business rather than investment consultancy work.

B&W is following in the footsteps of R Watson in forming a transatlantic alliance. In 1995, R Watson formed a partnership with US employee benefits consultants Wyatt, which took an effective stake in the UK firm. The two businesses now operate under the same name – Watson Wyatt – and have standardised their approach to investment consultancy.

The recently-formed alliances face tough competition from two US-based firms that already have strong international practices: Frank Russell and William M Mercer.

Frank Russell is a pure investment consultancy – no parent actuarial firm supports it with referrals of business. Mr Ken Ayers, spokesman for the firm's UK operation, says: "We have developed a business among the world's largest pension funds despite competition from liability actuaries able to provide investment advice – we have been employed because of our specialised nature."

Mr Ayers says the firm already does plenty of work for multinationals, thanks to a US client base of 200 large companies with pension funds worth $700bn.

William M Mercer's UK investment consultancy has the backing of an actuarial practice and its worldwide network of offices. Tallies of reported appointments to run manager selections – an unreliable indicator in such a secretive market – suggest the firm ranks second only to Watson Wyatt in the UK. It has also built up a strong business in the Netherlands, the European country whose occupational pension system most closely matches the UK's.

Mr Tony Osborn-Barker, head of UK commercial development at Mercer Investment Consulting believes that in future consultants will stand or fall by the consistency and speed with which offices in different countries can share information. "I can receive news on the overseas activi-
ager faster than its own head office," he says, "and I can access the database of research on US managers from my desk."

Ironically, investment consultants are aiming to expand at a time when the usefulness of one of their core activities – advising funds on manager selection – is under attack.

A study published last month by performance measurer WM Company shows that over a five-year period, pension schemes that appointed new managers underperformed those that made no change. WM suggests that the chances of appointing a new manager that will outperform the old one are no better than evenly-balanced. However, switching the management of the whole fund may cost as much as 2 per cent of its value.

WM also questions the methodology of consultants in recommending investment managers with strong track records.

Investment managers, who are often irked by their dependence on consultants for new business, have derived some secret satisfaction from the study's conclusions. One of them comments: "All most investment consultants are doing in manager selection is buying high and selling cheap. And they are always anxious to divorce themselves from the consequences of trustees' decisions when the results are poor."

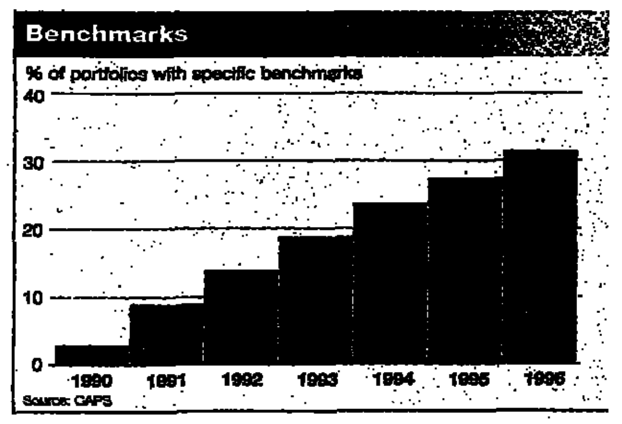
In reality, manager searches can be driven as much by a fund's internal politics as by a genuine desire to improve performance. Trustees face heavy criticism if they fail to replace an underperforming manager. Equally, they cannot justify hiring an also-ran in the hope that it will produce better returns in future.

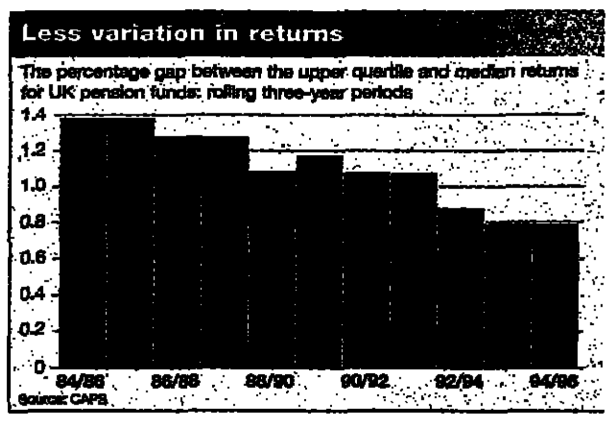
Thus, investment consultants play two roles in manager selection. The first is to help trustees reach the decision. The second is to validate the choice by their mere involvement, shielding the trustees from future criticism from members or spon-

RISK CONTROL • by Barry Riley

New listings rock the boat

Managers face an awkward couple of months with their measured portfolio risk





The Halifax listing will pose a challenge to risk control systems

British fund managers are in something of a tizzy over the stock market listing this spring and summer of Halifax and several other demutualised building societies and life companies.

The sudden change in the index weightings which will result – the new listings add up to about 2 per cent of the stock market's capitalisation – poses a challenge to the sophisticated risk control systems now in almost universal use by big fund management groups. It is a mistake to think that the problem is by any means limited to index-tracking funds.

The fact that an unexpectedly large 27 per cent proportion of the shares in Alliance & Leicester was sold pre-flotation by small investors last month has been encouraging to institutional managers, because it implies that the worst fears about a stock famine will not be realised.

There are also negotiations going on about when the companies will be included in the indices, with the promise of some flexibility.

Nevertheless, managers will have an awkward time managing their measured portfolio risk over the next couple of months. They are urgently asking how they can neutralise their exposures relative to the indices. Few are greatly concerned at this stage with more fundamental questions of whether Halifax and the rest will prove to be good investments.

Risk controls have been introduced more and more widely in the UK during the past 10 years or so. Often, industry-standard software such as a Barra or Quantec risk model is used in conjunction with systems devised by in-house quantitative teams.

These methods are crucial to the ability of the big pension fund managers to satisfy large numbers of clients and continue to build their already substantial market shares.

Two main objectives are to reduce the dispersion of portfolio performance within the client list of each house, and to control risks against external yardsticks which may either be the peer group median or specific index-related benchmarks.

The effects can be seen from industry-wide performance data. According to the measurement specialist, Caps, the inter-quartile spread of returns in 1996 was the lowest observed since this kind of formal measurement began in 1970. In the 1980s, the gap between the upper quartile and the median performance on a rolling three-year basis was typically 1.4 per cent, but this has now declined to 0.8 per cent.

Risk control is a multi-layered process. At the simplest level, there are usually strategic constraints placed on exposures to important asset classes – such as that UK equities could never represent more than 65 per cent of a portfolio, or less than 45 per cent.

Managers also monitor load differences – the differences between individual stock exposures in the portfolios and the index weightings.

Load ratios may also be used, which have the extra function of highlighting big exposures to small, possibly volatile, stocks.

In addition, multifactor models can be used to separate out so-called style characteristics of a portfolio – such as its exposure to value, growth or company size.

This style analysis has become especially widely followed over the past couple of years because of the rather extreme relative performance swings in the market between value and growth.

Of greatest importance today, however, is probably the use of models which generate measures of risk based upon historical share price volatilities – such as "tracking error" or "active risk" which are based upon the expected standard deviation of return.

At any rate, risk management is now a very important part of the overall quality control process in fund management. From the manager's point of view, controlling the downside is probably the most important aspect. If the funds underperform it is vital to limit the damage to a level which will not cause business losses.

The clients' risks may be different. Some types of clients – though not usually pension funds – will be worried about absolute volatility. Others will be more concerned about the risks against a benchmark.

Although risks can be controlled they cannot be eliminated. Active managers must target a reasonable tracking error if they are to have any hope of beating their benchmarks in the long run. Clients' consultants can also analyse risks, and they will soon point out any hints of very low tracking error, and therefore of closet index-tracking.

Generally, fund managers are more willing to take risks on stock selection than asset allocation. There is more diversification, and therefore safety, in a large number of small bets than in a few big ones.

An exception in the UK has been PDFM which has moved a long way from standard asset allocations, and has suffered adverse publicity because of its erratic short-term performance.

Peer group orientation can have odd effects.

Late last year there were indications that several other big UK pension fund management houses were raising liquidity in order to neutralise their risks against PDFM.

But this was not in the interests of their clients at that particular time.

Similarly, in running overseas equities the UK pension fund managers take small risks against each other but big risks against the World ex UK Index. They have been heavily underweight the US stock market, for example, and heavily overweight the Far East ex Japan region. Over the past three years these risks have failed to pay off.

In general, though, risk goes hand in hand with return. It is up to the pension consultants to ensure that in future these powerful risk control methodologies are used at least as much for the benefit of the clients as the fund managers.

INDEX FUNDS • by Jonathan Guthrie

A question of active versus passive portfolios

The two forms of management are not necessarily mutually exclusive

Retail investors on both sides of the Atlantic are pumping money into index funds. The trend comes at a time when many commentators say that uptake of passive management services by big pension funds has ground to a halt, at about 20 per cent for the UK and 30 per cent for the US.

But there is still plenty of room for expansion by selling to private investors. In the US, Vanguard Group, which specialises in index funds, took in more new money last year than any other mutual fund business, including stockpicking rival Fidelity Investments. A good chunk of it came from company-sponsored schemes: the 401k plans which give members considerable investment choice.

In the UK, Virgin Direct, which sells index funds managed for it by Norwich Union, achieved strong sales during the three-month period before the end of the old tax year, when private investors scramble to buy personal equity plans. No rival unit trust promoter has yet claimed a better outcome than its £500m inflow.

Most members of UK company schemes currently lack the freedom enjoyed by members of 401k plans to buy index funds. The bulk of British pension assets are still held by final salary schemes, where trustees are responsible for choosing an investment strategy and fund managers to run it.

That could change if growth in group personal pension plans (GPPs) is as strong as some commentators predict. GPPs, sold primarily by insurers, are becoming popular with smaller employers who do want to shoulder the costs and legal liabilities of running a full-blooded occupational scheme covered by the Pensions Act. They give members plenty of scope to choose their own investments, which the success of the Virgin Pep suggests could include index funds, when they are available.

Members often have less freedom of choice within occupational money purchase plans, which also have a growing following among cost-conscious employers. But here the scheme trustees will often hire a passive manager on their behalf, claims Ms Nancy Dickie, managing director of European business development at the world's largest passive manager, Barclays Global Investors. "In our own client base we are seeing a move to setting up money purchase schemes for new entrants and all of them see indexation as a very attractive option," she says. Trustees apparently find the prospect of accounting for manager underperformance to an angry employer less daunting than to angry members.

UK passive managers are meanwhile hoping to win new business from final salary schemes as a result of the introduction this year of the Minimum Funding Requirement under the Pensions Act. This benchmark for scheme solvency, they argue, will encourage trustees to focus more on their liabilities and prize more highly the reliability of returns – passive management's main selling point.

"Trustees can either run the pension fund close to the MFR – a low-risk strategy – or take a more aggressive stance and face having to increase funding later on," says Ms Dickie.

The case for passive management gained support from figures published in April by performance measurer Combined Actuarial Performance Services (Caps). These show that the great majority of funds with customised benchmarks have failed to meet their targets, typically set as a percentage outperformance in each asset class over an index.

The figures from Caps also provide active managers with some ammunition. They reveal that the median pension fund return from UK equities has been higher than that from the FTSE All-Share Index in every rolling three-year period since 1990. What let active managers down when they tried to beat specific benchmarks was underperformance in bonds and foreign equities, and poor asset allocation.

"Pension funds have benefited from active management in UK equities, their most important asset class, at the expense of other investors," says Mr Alan Willcock, research and development manager of Caps. The company's chief executive, Mr John Clamp adds: "Index managers have to ask themselves how they will market themselves in the light of this."

One answer is to sell themselves as active managers, too. Debate on the relative merits of passive and active management often portrays the approaches as mutually exclusive. The real picture is less clear. Asset allocation remains a largely active process, which passive managers must offer to remain competitive. Moreover, most US and UK pension schemes that use index funds also use actively-managed ones too.

According to Ms Jennie Paterson, managing director of Barr Rosenberg European Management, the split is typically between a passively-managed core, accounting for 70 per cent of assets, and satellite portfolios holding the remaining 30 per cent, run by specialist managers.

Companies tagged as index managers, such as BGI, have good reason to seek active briefs too. Fees are as much as two times higher.

Without the marked differences in style that separate many active managers, index managers have to compete strongly on price. The bigger you are, the greater the economies of scale, and the cheaper you can make your service. This is why BGI and State Street have become so dominant. In Britain, Legal & General is an important domestic contender.

Fees aside, another reason for diversifying into active management is that there are natural limits to the proportion of total assets passive managers can control. Mr Tony Osborn-Barker, head of UK commercial development at Mercer Investment Consulting, says: "As the market becomes more and more indexed, it becomes easier to be an active manager". Passive managers rely on the buying decisions of active managers to create the indices in which they invest. They cannot supplant active peers entirely, because markets would no longer function efficiently if they did.

DERIVATIVES • by Samer Iskandar

Bad publicity has been the worst enemy

Asset allocation moves have been the main use for derivatives by the pension funds

Pension funds have been left almost entirely unaffected by the exponential growth in the derivatives market, one of the fastest growing sectors of the international capital markets in recent years.

"Derivatives usage [by pension funds] has not increased to any large extent in the past year," says Mr Graham Wood, a client consultant at the WM Company, which tracks the performances of some 1,500 funds.

In some activities, derivatives usage has even declined.

In WM's universe, for example, only a fifth of funds was making active use of currency derivatives at the end of 1996, down from a third one year earlier.

This resistance against the international trend towards greater acceptance of derivatives is mainly a result of pension fund trustees' attitude towards risk.

"The worst enemy of derivatives is the bad publicity surrounding some extreme cases," says Mr Tony Whalley, investment director at Scottish Widows Investment Management in Edinburgh, referring to accidents such as the demise of Barings and the bankruptcy of Orange County (California). "Events like these tend to stick in trustees' minds."

The main use pension funds are finding for derivatives is usually for asset allocation moves. Futures contracts are often used, for example, to avoid moving market prices when a fund's managers decide to shift a substantial sum from one market to another.

"Derivatives allow the fund manager to segregate the asset allocation process from the stock selection process," says Mr Barry Marshall, head of derivatives at Gartmore, the fund managers. "They give leeway to the individual fund manager to buy the right stock at the right time."

Gartmore says that more than 60 per cent of its clients had agreed to let it use derivatives since it started seeking permission in 1991.

"Futures contracts are a very useful tool for fund managers," says Mr Marshall. "I am surprised to see that some managers do not even use them to facilitate asset allocation moves."

In a majority of cases, including asset allocation moves, derivatives are used in one-off transactions rather than as part of the continuing fund management process. Cases of corporate restructurings are often cited, as are mergers and acquisitions.

> Derivatives can offer advantages that pension funds have not yet explored

One example is provided in a book recently published by the Association of Corporate Treasurers*. Following the demerger of ICI and Zeneca, the ICI Pension Fund was left with an increased proportion of pensioners relative to contributors.

As a result, the fund was paying out more than it was receiving in contributions, a situation that required a large-scale shift towards more income-producing assets such as bonds.

The strategic move was expected to create nearly £3bn of equity trading during the reorganisation, which could shift market prices by 5 per cent or more to the fund's disadvantage, according to Mr Charles Amos at IC Investments. This was averted through the use of derivatives.

"If properly used, futures enable the strategic effect of very large reorganisations to be achieved with relatively small cash backing and without disturbing the market with sudden, huge selling and buying programmes in individual stocks," says Mr Amos.

Another advantage was that during the six-week transition the fund did not risk missing out on the underlying market's performance, because the futures positions had brought overall market exposure in line with the post-transition investment situation.

During the interim period, "the transition team could afford to bide their time for good buying and selling opportunities", Mr Amos says.

But derivatives offer other advantages that pension funds have not yet fully explored.

"There is definitely scope for more use," says Mr Wood.

One area in which derivatives could prove useful is the move from defined benefit pension schemes to defined contribution schemes, which shifts the risk of underperformance from the fund sponsor to the individual.

> The vast majority of new products is likely to be based on derivatives

"Unlike pension funds which can benefit from risk pooling and mutual hedging, individuals are much more risk averse," says Mr Art Noble, a vice-president at J.P.Morgan. "This is where guaranteed equity products can more specifically meet an individual's risk aversion needs than can a switch to fixed income."

Guaranteed equity funds, which now offer guaranteed returns for up to five years, can give individuals – especially those in the last few years of their active life – a proportion of the high returns provided by equities, while maintaining the value of the invested capital in a manner typically associated with bonds.

Such products can therefore help fund managers to tackle the dilemma of whether to hold equities or bonds. The former are preferable from the asset standpoint, providing higher returns in the long run. The latter are preferable in terms of liability management, because bond portfolios can be structured to offer predictable cash flows.

"Pension funds can use derivatives to protect their downside, while maintaining a relatively higher exposure to equities than a risk-equivalent switch into bonds," says Mr Edward Archer, a managing director at J.P.Morgan.

"A vast majority of new products will be derivatives-based," says Mr Whalley at Scottish Widows. But innovation is usually driven by needs and those of pension funds do not seem to require much creativity these days.

"In the long run, shares offer the best returns," says one fund manager.

WM points out that the pension schemes it tracks are in a very healthy position: 60 per cent are currently either on contributions holiday or on reduced contributions. As a result, in the words of an economist: "pension funds are not in the business of taking risk, so why should they bother?"

* *Uses of Derivatives, edited by David Creed and Jeremy Wagener, ACT.*

SHAREHOLDER VALUE • by John Kingman

Funds step up monitoring

The robust Anglo-Saxon approach is gaining ground

It is a striking fact, and no coincidence: countries with substantial funded pension schemes also tend to be those where notions of shareholder value are best developed.

The explanation lies partly in the sheer size of pension funds' investments, which gives them clout, and partly in their narrow focus on returns.

For a pension fund to sell a significant stake in an underperforming company can often be difficult. So funds have a powerful incentive to take more direct action, pressing for management changes or encouraging a takeover.

Many would conclude that the presence of big funded pension schemes in the US and the UK goes a long way towards explaining the perceived aggressiveness of Anglo-American corporate culture.

The difference now is that funded pensions are spreading – and taking their values with them.

The process has two powerful drivers. First, the opening-up of the world's capital markets has allowed pension funds to diversify their portfolios by investing overseas. There is plentiful academic evidence that geographic diversification in a portfolio can boost the balance of reward to risk.

Hence, for example, the increasingly conspicuous presence of US funds on the share registers of European companies.

Such investors have different expectations and priorities from their continental counterparts. Indeed, they are often picking stocks precisely because they hope to anticipate – and promote – value-enhancing restructuring.

But a further impetus should also come from a different angle: the inevitable growing-up of local funded pension provision.

In Italy, Germany, France and Spain the shortage of long-term savings is a chronic demographic problem. Governments gazing gloomily at charts showing ever-climbing ratios of the retired to the employed have little choice but to encourage the development of funded schemes.

The French government, for one, has recently passed a law to do precisely that.

This is not, however, an ineluctable and unopposed evolution. The shareholder value concept has as many opponents as it has enthusiasts.

Critics such as Mr Will Hutton, author of the British best-seller *The State We're In*, blame a whole range of economic problems on the allegedly short-term outlook of UK pension funds.

Meanwhile in the US, big investment institutions are frequently criticised for encouraging constant takeovers and corporate "downsizing".

Such ruthless measures, it is claimed, can have destructive consequences even if they boost stock prices in the short run.

Big funds typically reject these criticisms robustly. In practice, their stakes are often too large to be easily bought and sold. Moreover, in takeover situations pension funds frequently have shareholdings in both the bidder and its target; if so, they are in a good position to judge whether a bid will add value overall.

A high-profile example was last year's controversial bid for Forte from Granada, in which Britain's Mercury Asset Management was the biggest shareholder in both groups.

Some, however, mount the opposite critique: that fund managers can sometimes be slow to take action to boost shareholder value. Forte was a case in point. The company drifted for several years before the Granada bid arrived. And over that time, little shareholder activism was evident.

To some extent, the explanation probably lies in funds' common preference to exert discreet pressure behind the scenes before kicking up a public fuss. Such methods, it is argued, can be quietly effective while a public row can take its toll on the company's share price.

Nevertheless, tactics are evolving. Several big British fund managers now have senior individuals charged with monitoring corporate performance and considering the case for change.

More effort is being directed into cultivating co-ordinated efforts between funds.

And it is now common practice for fund managers to publish corporate governance guidelines setting out how they expect companies to behave.

But it is in the US that tactics have progressed furthest. The Council of Institutional Investors, which represents most of the largest US pension funds, regularly publishes a "focus list" of companies which persistently underperform.

Last year, two of the 20 companies on the list changed their chief executives within two weeks of being told by the council they were on the list. Academic research has shown that named companies tend to outperform subsequently, although many question whether this is necessarily evidence of cause and effect.

In Europe, such public shock tactics are still generally considered outlandishly radical. There have been persistent expectations that Calpers (the California Public Employees' Retirement System), which has big holdings in the UK and France, would import more aggressive tactics.

In fact, Calpers recently published guidelines for its European investments which suggested that – for the time being at least – it planned a more softly-softly approach.

A further question, for British pension funds at least, is whether political pressures could cause them to play a less active role. Britain's Labour party has in the past argued the case for "stakeholding" – a view of corporate responsibility in which shareholders' interests are set alongside those of other groups such as employees.

Yet the signs are that Labour's flirtation with this philosophy is past – the word is not mentioned in the party's election manifesto. Instead, funds are generally more concerned over Labour's promise to review the corporate tax system, an exercise which could threaten their traditional tax privileges, in particular the tax credit on dividends.

Such a change could quench funds' present thirst for dividend income. But, as Labour is doubtless aware, it would do little to dent their enthusiasm for shareholder value.

THE US • by Richard Waters in New York

Generally benign conditions

Good results have left funds with something of a dilemma: what to do for an encore

These are good times for the US pensions industry.

A heavy reliance on US investments – despite the continuing build-up in foreign assets – left most pension plans well-positioned to benefit from Wall Street's mid-1990s bull market.

Also, after a protracted economic expansion which has boosted the cashflow of corporate America and enabled many once-crippled companies to restore their balance sheets to health, most private sector schemes are in generally sound shape.

"We've been in a near-perfect environment for pension plans," says Mr Perry Johnson, a director of investment consulting at Watson Wyatt. Falling inflation – particularly of wages and salaries – and double-digit investment returns have left most plans well positioned, he adds.

None of which is to say that the job of US pension trustees has got any easier.

The funding level of the average corporate scheme actually dropped last year – a function of how the present value of future liabilities climbed even faster than asset values. And, after several years of stellar investment performance, the perennial question remains the same: how to make returns in future which match the 10 per cent rate of return that most pension plans continue to build into their financial assumptions?

In general, the health of the US's pension schemes is closely linked to the long bull markets in US equities.

At the start of the 1980s, the average US pension fund had 34 per cent of its money in the equity markets: 40 per cent was in bonds. By the end of 1995, the balance had shifted the other way, with the equity component climbing to 43 per cent and bonds falling to 32 per cent, according to a report by The Conference Board, a business research group.

The continued rise of stocks since then has tipped the scales even further.

This good performance, though, has left funds with something of a dilemma: what to do for an encore.

General Motors has improved its pensions fund performance by donating corporate assets to its pension scheme

Rate of return expectations have tended to rise on the back of strong investment performance, putting greater pressure on managers to continue to deliver double-digit returns.

Besides the greater shift to equities, the two most obvious results of this have been the move into international markets – something that shows no sign of letting up – and the popularity, particularly among the more long-term endowment plans, of alternative investments such as private equity funds.

The average US pension fund now has slightly over 10 per cent of its assets abroad, compared with around 7 per cent four years ago. That is still well below the level of funds in countries like the UK, but the rate of increase shows little sign of slowing.

Most pension fund trustees have shifted their weighting towards international markets in the expectation of higher returns, rather than purely for the promised benefits of diversification, says Mr John Webster of Greenwich Associates, an investment consulting firm.

According to a recent Greenwich survey, pension managers expect returns averaging 10.9 per cent from their international equity holdings, compared to 9.9 per cent from their US stock portfolios.

Such expectations, though, "have been wrong for the past ten years – and spectacularly wrong for the last two," adds Mr Webster. But that has not stopped the continuing shift abroad.

These shifts in investment mix are generally held by consultants to have been a good thing for the long-term health of the US pension industry – although a less positive period for the equity markets than has prevailed for the past 15 years would undoubtedly bring problems to light.

"Risk management is going to take on increasing importance," says Mr Johnson.

There is danger of a mismatch developing at some funds between the increasingly long-term nature of their investment portfolios and the maturity of their liabilities, he says.

The question of risk is most acute in defined contribution plans, which continue to grow at a ferocious pace (according to Greenwich, such schemes now account for 38 per cent of US pension fund assets, and are expected to increase to 65 per cent in 10 years' time.)

The average plan still holds a third of its assets in the equity of the employing company and there is a continuing underweighting in stocks in general. Educating the beneficiaries of these plans, though, remains a long-term task.

Meanwhile, the extended US economic recovery, now into its seventh year, has allowed ample time for those companies with chronically underfunded pension plans to make good the shortfall. There has also been prodding from Washington to get them to act, in the shape of 1994 legislation which required companies to meet tighter standards on funding levels.

Whether vehicle makers or steel companies, most of the worst performers have now had a chance to repair the damage, either through allocating part of their cashflow or – as in the case of General Motors – donating other corporate assets to their pension schemes.

One recent sign of this financial health was the news that the Pension Benefit Guaranty Corporation, a federal agency set up in 1974 to insure members of corporate pension plans, had moved into surplus for the first time in its history.

In 1992, the agency's deficit reached nearly $3bn.

Despite these generally benign conditions, however, the funding level of the average US pension scheme has deteriorated of late.

Low long-term bond rates, at least by historical standards, have added to the actuarial valuation of future liabilities.

Pension liabilities have also been inflated by a recent change in the mortality tables used by the Internal Revenue Service, says Mr Webster at Greenwich.

By forcing companies to assume that their former workers will live longer, the IRS has provided a one-off boost to plans' liabilities.

According to the federal guaranty agency, the extent of underfunding in the private sector at large doubled in 1995, to some $64bn, thanks mainly to the gyrations in the US bond market.

And the plans surveyed by Greenwich reported that their assets slipped to 119 per cent of liabilities in 1996, from 128 per cent the year before and 144 per cent in 1994.

JAPAN • by Bethan Hutton in Tokyo

Special sparkle will be needed

Outstanding performances will be necessary to minimise the pensions shortfall

Most of Japan's promised "big bang" is still in the planning stage, but in one area of the financial system at least, a wave of deregulation is already taking effect.

The case for reform in Japan's pension system was more urgent, and perhaps less painful to implement, than some of the measures planned for the rest of the financial sector.

The problem of Japan's rapidly ageing population has been well known for some time, but it was only after the collapse of the economic bubble of the late 1980s that its financial implications became starkly obvious.

Previously, there had been some complacency that Japan's high savings rate, combined with seemingly unstoppable growth in the stock market and in land prices, would provide for the growing proportion of pensioners without too much adjustment.

Now, the picture looks rather different. Japan's total pool of pension assets has been estimated at over Y240,000bn, but even this will not be enough at current rates of return to provide the pensions expected by the millions of Japanese due to reach retirement age in the first two decades of the next century. Interest rates are at all-time lows, Japanese government bonds are yielding less than 2.2 per cent, and returns on equity investment have recently been slim or even negative.

The life insurers and trust banks which used to have almost monopolistic control of pension fund investment have not been providing even the minimum returns required by the government.

At first gradually, but now with gathering momentum, Japan's pension fund industry has been opened up to competition both from domestic institutions and foreign companies. First private pension funds, then public funds, have been allowed to entrust a portion of their assets to investment managers other than the life insurers and trust banks.

Asset allocation regulations have also been relaxed, so that funds do not have to keep half their money in low-yielding yen fixed interest assets.

Independent investment advisers – including the asset management offshoots of Japanese stock brokers, and foreign fund management companies – are taking a rapidly increasing share of the market as the barriers are lifted. From April 1 this year, independent advisers are allowed to manage up to half of private sector pension funds, up from the previous one-third, and all limits are due to be removed by 1999.

The majority of the newly-liberated funds are going to the investment advisory arms of the big four Japanese brokers. Nomura Investment Management heads the list, with more than Y2,000bn of assets under management.

Japanese institutions were handling Y11,270.5bn of the Y12,853.8bn entrusted to independent advisers in December 1996, according to figures from the Japan Securities Investment Advisers Association.

> Foreign fund managers have so far won only about 12 per cent of the business

Growth rates have been phenomenal – there was an 87.8 per cent increase in independent advisers' assets under management over the nine months to December 1996 – and are set to continue, although competition is also increasing.

Foreign fund managers have so far won only about 12 per cent of the business, but that still amounted to a significant Y1,583.3bn by the end of last year. The leading foreign name in the market is Schroders, with Y294.9bn, closely followed by Deutsche Morgan Grenfell, Mercury Asset Management and Jardine Fleming, each of which was managing more than Y200bn of pension assets as at December 1996. A joint venture between Barclays Bank and Nikko Securities has Y630.6bn.

Perhaps the most significant reform was introduced on April 1 this year, although its impact has yet to be felt. Before that date, pension fund performance was officially measured using the book value, rather than the market value, of investments.

This meant that a stock or bond holding was regarded as being worth the price paid for it, until it was sold – so there was a strong incentive to sell high-performing assets to book a profit, even if they had potential to rise further, and keep investments which had fallen in value, in the hope that they would eventually bounce back. This led to huge amounts of latent losses, particularly after the stock market falls of the last few years.

But in future, managers will not be able to hide their poor investment decisions, and funds will have a clear basis for comparison between investment groups.

Western fund managers are accustomed to their performance being subject to scrutiny; a few Japanese houses have also been keeping market value-based statistics for internal reference. Groups such as Nomura Investment Management, which has the reputation of being the most westernised of the Japanese investment advisers, will find the transition to market valuations relatively painless, but some of the more conservative insurance companies and trust banks may find it traumatic. Although the move is expected to depress the stock market temporarily as non-performing stocks are cleared off the books, in the long run investment performance can only benefit.

The Japanese employment system has also hampered performance: staff are traditionally rotated around various departments of a company every two to four years, which means that very few build up real expertise in any given area. Anecdotal evidence now suggests, however, that at least in the financial sector efforts are being made to breed a new generation of financial specialists.

Traditional seniority-based pay structures are also being rethought, with a few companies starting to reward star performers more than managers twice their age.

One thing is certain: outstanding investment performance will be needed in future if Japan is to minimise the impact of its unavoidable pension shortfall, and the market is increasingly open to any company, or any strategy, which can provide that performance.

US INDEX-LINKED BONDS • by Daniel Bogler

Step closer to the mainstream

The US Treasury has a toe in the water... but now some patience may be required

January's launch of index-linked bonds by the US Treasury was a big step towards the mainstream for what is still, as far as many investors are concerned, a rather esoteric debt instrument.

For the Treasury, the establishment of a liquid inflation-indexed securities market should help to cut long-term funding costs and broaden the investor base. For the market in index-linked bonds itself, the involvement of the American government lends enormous credibility. And for pension funds, in the US and elsewhere, this is a new investment opportunity and provides valuable information on inflationary expectations and, perhaps, stock prices.

Examining each of these in turn, the debt management objectives of the Treasury are to raise cash, minimise the cost of borrowing to taxpayers and offer a balanced maturity structure.

According to Mr David Prieul, fixed income strategist at US investment bank Lehman Brothers, index-linked securities help in two ways. First, they do not carry an inflation risk premium and will therefore be significantly cheaper to service than conventional bonds if inflation remains low.

Judging by the UK experience, the government could save a full percentage point of yield over the long term.

Second, the Treasury's participation in this market should trigger demand both in the US and internationally, from a broader spread of investors.

So far that has proved half right on the ground. The first auction, of $7bn of 10-year inflation-proofed bonds in January, was highly successful: the issue was more than five times subscribed, enabling the Treasury to achieve a real yield of just 3.4 per cent.

But April's second tranche of $8bn, though fully fungible, was barely twice subscribed and the real yield on issue rose to 3.59 per cent – which is roughly where the bonds are trading at present.

Part of the problem has undoubtedly been a lack of liquidity. As in the UK, most of the bonds were snapped up by pension funds and insurance companies, who match them with long-term liabilities.

Mr Nigel Richardson, international bond analyst at Yamaichi, the Japanese broker, calls it "a classic buy and hold strategy".

In Britain, where index-linked gilts were first launched in 1981, they make up 17 per cent of government debt – with more than £40bn in issue – but only 2 per cent of market turnover.

Given the $2000bn annual issuance of the US Treasury, the current $15bn of outstanding inflation-linked notes looks like a drop in the ocean, and the size of each individual issue will probably have to reach $20bn-$25bn before it is truly liquid.

That may be one reason why some investors, particularly international ones, have stayed out of the market at least for now. But there are others too.

Ms Pam Burgess, international fund manager at the UK's Prudential, says that she remains cautious about indexed treasuries given the poor performance of indexed gilts in the first five years after launch.

In addition, she says: "When the recent inflation experience has been good, as in the US, you would expect normal bonds to outperform index-linked: this has certainly happened in the UK."

By contrast, Gartmore, the fund management arm of Britain's NatWest Group, has bought some of the first two US issues for its more specialist portfolios. Mr Nick Henderson, Gartmore's head of fixed income, sees them as useful additions for balanced pension funds.

He believes that with UK and US index-linked bonds both yielding about 3.6 per cent currently, America's better inflation record and the dollar's status as a reserve currency leaves the US bonds looking relatively attractive.

As Mr Henderson points out, this leads neatly into what is, for some investors, the most useful function of index-linked securities – providing information to help set a global real yield.

Academic theory holds that there should be a single worldwide interest rate once inflation and currency risks are stripped out. Since inflation and currency depreciation ought to balance out over the long term, index-linked yields should be the same the world over.

In practice, this looks to be far from the truth. While real yields in the UK and US are almost the same, index-linked bonds in Canada, Australia and New Zealand yield anywhere between 4 and 5½ per cent.

In fact, much of the discrepancy can be explained by the poorer credit quality of those countries, as measured by their external debt position, argues Mr Paul Abberley, head of fixed income at boutique bank Lombard Odier.

If the idea of the global real yield holds, what does this tell us about valuations elsewhere, particularly as far as equities are concerned?

In the US, the dividend yield on the Standard & Poors index at 1.8 per cent is just half the yield on index-linked securities. This worries Yamaichi's Mr Richardson: "Both of these instruments are implicitly hedges against inflation, but the ratio between them is now as stretched as it was in the UK just before the 1987 crash."

Mr Abberley agrees that with world economies growing at 2-3 per cent, the high annual returns of 5-6 per cent that investors have received from equities over the past decade look unsustainable in the long run. By contrast, index-linked bonds, given their lack of risk, look increasingly tempting. But he cautions that it will take time to wean investors off shares:

"The theory behind index-linked bonds is great. In practice, their returns have been disappointing and it will be an uphill struggle to convert people who have got used to the high returns provided by equities."

Having waited so long to enter this market, however, the US Treasury will undoubtedly muster the required patience.

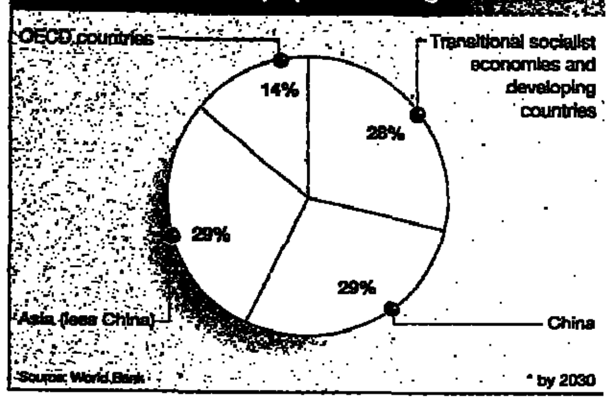
DEVELOPING COUNTRIES • by Martin Wolf

An age-old problem

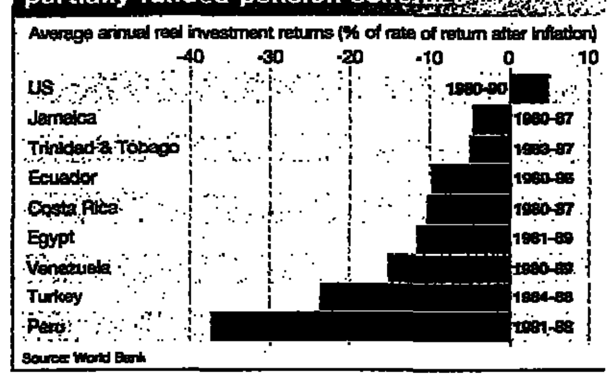
The question is how to secure the survival of people in their old age as they live longer

The economically advanced countries are not the only ones to be confronted by rapidly ageing populations. A comparable process is at work in developing countries, but – unhappily for them – at an earlier stage in their economic development.

This is just one of the reasons why privately managed, funded pensions are being established in many developing countries. Other reasons include the desire to raise national savings and the often dismal performance of monopolistic, publicly managed pension schemes.



Increase in world population aged over 60*



Selected publicly managed, partially funded pension schemes

By 2030, China is forecast to have a higher proportion of its population aged over 60 than members of the Organisation of Economic Co-operation and Development in 1990. The same is true for the transitional former socialist countries. Elsewhere, the proportion of the population over 60 will not be as high as in the today's advanced economies even by 2030. But it will rise quickly almost everywhere.

The ageing of populations is desirable, because it reflects better health and smaller birth rates. But the question is how to secure the survival of these people in old age, particularly because traditional family mechanisms of support are being eroded by mobility and urbanisation.

Funded pensions are, it is hoped, a part of the answer. In most developing countries, however, publicly managed ones are not. Traditionally, the reserves of immature public pension systems have too often served as a convenient source of cheap public finance.

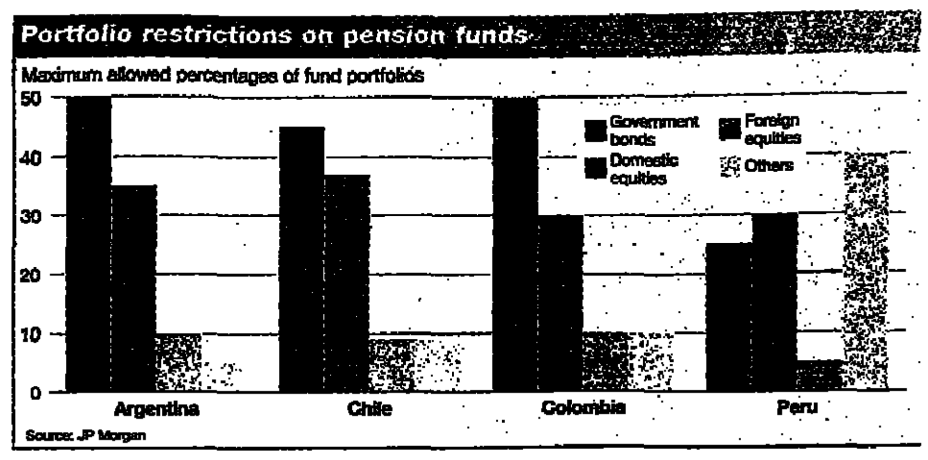
The World Bank's comprehensive study of ageing in developing countries (*Averting the Old Age Crisis, 1994*) shows that the annual real returns on many partially funded public pension schemes were negative in the 1980s. In Peru, for example, real annual returns were -37 per cent. Other systems performed little better: returns in Turkey were -24 per cent and in Egypt -12 per cent. In Venezuela, the real value of pensions fell by 80 per cent between 1974 and 1992.

It is true that funds run by disciplined governments, with strong public finances, have escaped such disasters. Singapore is an obvious example: high compulsory contributions to its Central Provident Fund have contributed to impressive rates of national savings – the highest in East Asia during the 1970s and 1980s; and the assets of this fund rose from 28 per cent of gross national product in 1976 to 76 per cent by 1991.

Yet even in Singapore, more than 90 per cent of fund assets were invested in non-tradeable government securities that obtained an average rate of return of only 3 per cent in the 1980s. This is better than the negative real returns achieved in developing countries with weak public finances and high rates of inflation. But it is also much below returns achieved by competitively managed funds.

The failings of public pension monopolies, be they notionally funded or pay-as-you-go, has stimulated the interest in private alternatives. Here Chile has been the pioneer.

A central element in Chile's reform was the decision to turn the implicit social security liabilities into explicit debt. In 1981, when the new system was introduced, the present value of that debt is estimated to have been 80 per cent of gross domestic product. Because the Chilean government was not only running a fiscal surplus but was also willing to privatise state-owned assets, managing this debt has been relatively simple.



Portfolio restrictions on pension funds

At the same time, Chile established mandatory defined-contribution pension funds under the control of specialised management companies. Some 95 per cent of the investments by these funds have been equities, real assets and indexed bonds. Since 1991 they have also been allowed to invest abroad.

Management costs have been higher in Chile than in Singapore, although they have been falling over time. But returns have been far better: real returns were 7.5-10.5 per cent a year during the 1980s, compared with 4.8 per cent in Malaysia and only 2.9 per cent in Singapore. The Chilean example has been understandably influential, particularly in Latin America. This is partly because of the awareness – made far stronger by the Mexican peso crisis of 1994 – that national savings rates have been too low. Consequently, Argentina, Bolivia, Colombia, Mexico and Peru have all established variants of the Chilean system.

Chile now has pension assets equal to 45 per cent of GDP. In Brazil the comparable figure is still only 9 per cent, while in Argentina it is a mere 3 per cent. But these pension funds should, in time, also become an appreciable proportion of national income.

In much the same way, the success of Singapore and Malaysia in boosting national savings has attracted the interest of other East Asian countries, including the Philippines and Thailand. Even China is considering following this example.

How far funded pension schemes, even mandatory ones, raise national savings is uncertain. Unless mandatory savings rates are higher than voluntary savings would have been, there is likely to be no more than a substitution of pension assets for other forms of savings.

Yet this is not the only potentially significant impact of the expansion of privately managed funds. Mr David Hale of Zurich Kemper Investments of Chicago emphasises in a paper for the New York Council of Foreign Relations that worldwide growth of returns-seeking pension funds will affect public finances, capital markets, corporate governance and international capital flows.

"The universal introduction of pension funds will," he concludes, "be one of the dominant forces reshaping the behaviour of all capitalist economies during the early 21st century."

Operating costs and investment returns

Operating costs as % of:

	Chile 1990	Malaysia 1989	Singapore 1990
Annual contributions	15.40	1.99	0.53
Average total assets	2.30	0.18	0.10
Covered annual wages	1.54	0.40	0.21
Affiliates times per capita income	*2.31*	*0.54*	*0.16*
Real investment returns on individual accounts (during 1980s)	7.5-10.5	4.82	2.86

Source: World Bank

CONTINENTAL EUROPE • by John Plender

Snail's pace development

The build-up in much of Europe will continue to be a slow-burn process

All are agreed that demographic pressure will pose a huge economic policy challenge for the economies of continental Europe in the 21st century.

Yet the extent of the pressure varies enormously according to the relative generosity of pay-as-you-go state pension provision and the structure of European labour markets.

A recent paper from the International Monetary Fund estimated the ratio of net pension liabilities to gross domestic product, based on projections to the year 2050, at 114 per cent for France, 111 per cent for Germany and 76 per cent for Italy.

The comparable figures for the UK and US were respectively 5 per cent and 26 per cent.

Another way to look at the problem is to measure the increase in taxation required, on current policies, to meet projected spending on pensions in the light of falling birth rates and increased life expectancy.

On this basis the Organisation for Economic Co-operation and Development estimates that the increase in the ratio of tax to GDP in Germany, France and Italy by 2030 would be 5 per cent, 3.8 per cent and 7.7 per cent. The figure for the UK is just 1 per cent.

Note, though, that the existence of a funded pension system is not, in itself, a protection against such demographic pressures. According to the OECD's numbers, Holland, with the second-largest pool of pension fund assets in the European Union after the UK, faces a bigger potential increase in the tax burden than France or Germany.

Note, too, that while funding may help ease the fiscal stress of an ageing population, it does not do so in the way often assumed. If the number of retired people increases relative to those in work, there is no escape from the fact that the retired population will make a larger claim on resources in the economy.

If a by-product of pensions funding is that the underlying growth of the economy improves, that would obviously help – although controversy rages among economists as to whether funding invariably does enlarge the economic cake.

The more important attraction of funding is that it helps legitimise the division of resources between young and old. Most people feel happier paying money into an identifiable pension scheme rather than into the hands of the tax man.

To that extent, the promotion of private pensions funding might appear an attractive policy option to governments which confront unpalatable choices including raising taxes and reducing benefits.

Yet the development of funded pensions in continental Europe is advancing at snail's pace.

At the level of the European Union, attempts to establish a more liberal environment for *pension fund* investment have been scuppered by the instinctive antipathy of countries such as France, where many still regard equity investment with suspicion and cross-border investment as imprudent.

Since a directive on pension fund investment was shelved last year, the European Commission's attempts to pursue liberalisation by other means have run into legal obstacles. An advocate-general of the European Court of Justice declared in January that the Commission's rules for cross-border investment were illegal.

Meanwhile, in the larger countries, any change to existing pension arrangements is fraught with difficulty. After a heated political debate in Germany earlier this year, the Bonn coalition agreed to a gradual reduction in state pension benefits from 70 per cent of earnings to the not much less generous level of 64 per cent by 2030.

Despite shortfalls in many German companies' book pension reserves – built up through a system of self-investment, underpinned by state guarantees – there has been no enthusiasm for a move towards independently funded pensions.

In France, new legislation has been introduced to encourage defined contribution company pensions. Yet the French view of the state remains instinctively respectful.

Most French citizens regard the generous pay-as-you-go state pension system as inherently safer than any private sector alternative. The looting of the Maxwell pension schemes in Britain convinced many that their instincts were sound.

In Italy, meanwhile, the pension reforms introduced by the government of Mr Lamberto Dini in 1995 did contain a positive inducement to increased saving via private provision, if only because the revised scheme offered such dismal returns to a younger generation.

Instead of being related to final pay, the pension under the new system is linked to contributions, while the return is related to growth in nominal GDP. Yet the more direct incentives for occupational pensions are not notably appealing because the associated tax reliefs are very limited.

This underlines the point that the build-up of funded pensions in much of continental *Europe will continue* to be a slow-burn process. A long-run demographic threat, by its nature, induces political inertia. And politicians instinctively look to push the increased fiscal burden on to those too young to cast a vote.

But the growing constraints on taxing and spending suggest that a continuing move to funding is inexorable. A less hostile attitude to equity investment on the part of governments and investors is also being fostered by widespread privatisation. And as ageing leads to lower savings rates across the continent, companies will increasingly approach the global equity market for funds.

For financial service providers who have long hoped for a pensions bonanza in continental Europe, that remains disappointing. The immediate future offers them no more than what our forbears would have called a modest competence.

ASIAN FINANCIAL MARKETS

Although the confidence born of years of double-digit growth has been shaken, some slowdown was inevitable if inflationary pressures were to abate, says **Peter Montagnon**

After the miracle, a breathing space

Asia has long regarded itself as being different from Latin America. Unlike the volatile economies of that region, with their vulnerability to the extremes of the economic cycle, it likes to portray itself as an area of steady growth and sound finances.

"It could not happen here", they said, when Mexico ran into its financial crisis at the end of 1994. Now, suddenly that confidence, born of years of near double-digit growth, is being shaken.

While banks in Hong Kong are going from strength to strength, thanks to surging *profits from mortgage and* other lending, those in Thailand and South Korea have hit embarrassing troubles.

After last year's *slowdown* in exports, Asian financial markets have fallen prey to nervousness at signs of financial sector weakness, caused in Thailand's case by a severe property glut and, in that of South Korea, by a collapse of profitability among the country's heavily-geared large companies.

With an oversupply of property coming on to the market in other countries, such as Malaysia and the Philippines, there are fears that banking problems could spread, just when a strong financial sector is badly needed. Without it, Asia will have difficulty mobilising the savings required to finance the infrastructural and industrial development that could sustain its rapid growth rates.

"The deflation spectre of Thailand is passing through the region," says Mr John Mulcahy, managing director *of W.I. Carr (Far East).* "Banks and companies used to be bailed out by inflation, but this is no longer happening."

"Throughout the region there are questions of how robust the financial systems are. In the short run they look all right, but Thailand shows how much needs to be done to make them more efficient," adds one World Bank expert.

Economists are quick to point out, though, that the sharp contraction of growth rates since the early 1990s does not necessarily mean the end of the Asian miracle. Some slowdown was inevita*ble if inflationary* pressures were to abate.

Handled correctly, it could provide just the right sort of *breathing space needed to* promote a more mature financial sector. The strains through which banks are passing in some countries could thus be seen as an opportunity, rather than a long-term threat to the region's prosperity.

Certainly, there are signs of continuing confidence among leading international banks. Buoyed by a 25 per cent increase to HK$3.6bn in its Hong Kong profits for 1996, Standard Chartered of the UK announced this year that it is to spend around £100m over the next year boosting its business in Asia.

According to a recent study by Salomon Brothers, Citicorp's net income from the Asia Pacific region has shown a compound growth of 38 per cent so far this decade. Last year the bank earned a net $866m from the region, amounting to 23 per cent of its total net earnings *and representing an average* return on equity of 20 per cent. "Citicorp's prospects remain bright," Salomon Brothers concluded.

For banks such as these Asia still offers good long-term opportunities. Even though economic growth has slowed from the heady days of the early 1990s, it is still high. The Asian Development Bank expects the developing countries of Asia to show a growth rate of 7.3 per cent this year compared with 7.4 per cent last year.

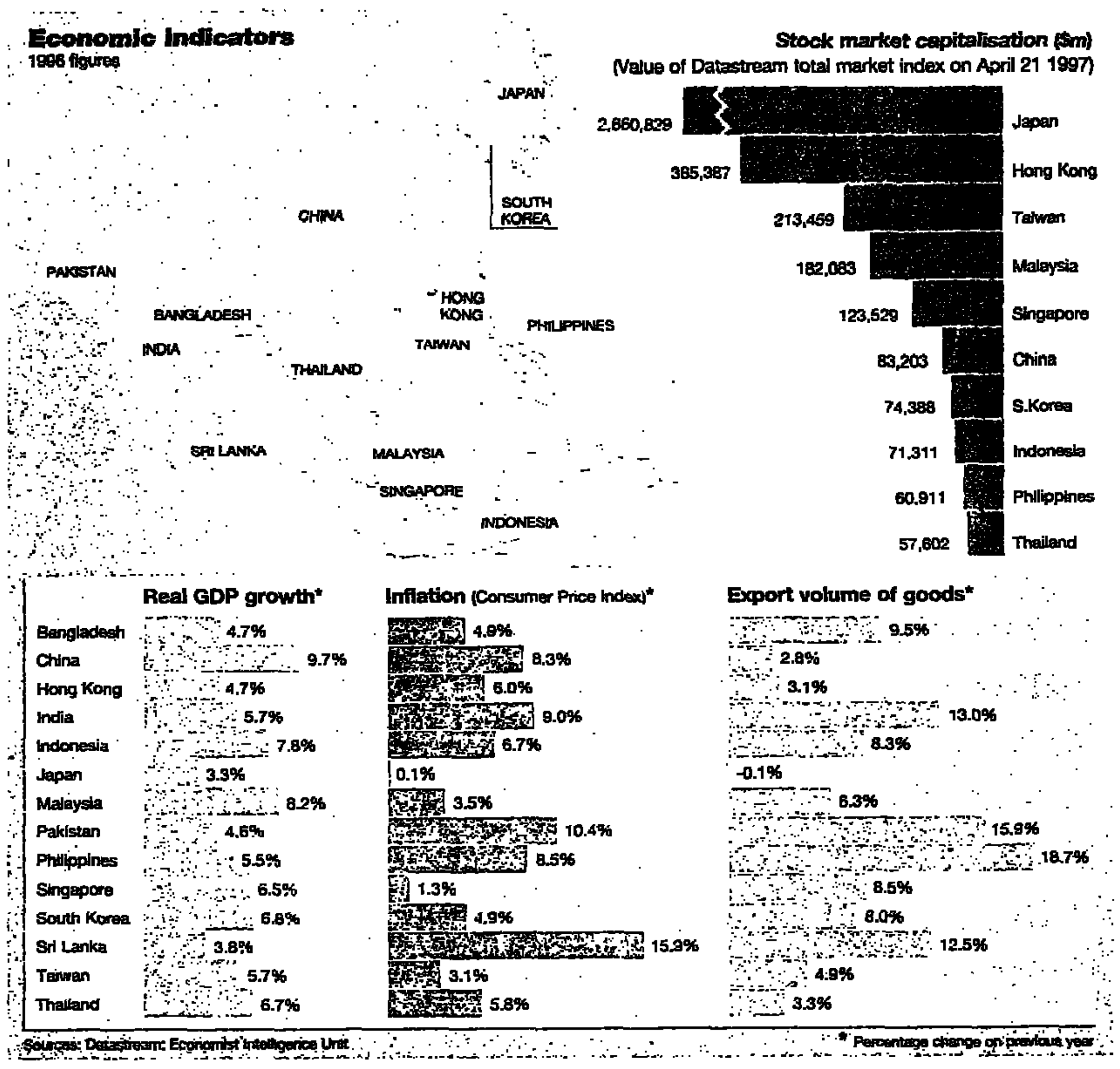
That still compares favourably with the sedate rates expected in the industrial *world, as well as Latin* America, where growth is expected to average between 4 and 5 per cent.

Asia should thus still offer scope for expansion not only in traditional bank businesses, such as trade finance, but also, as the region's middle class grows, in consumer lending, credit cards, mortgages and even private banking services to rich individuals.

Adding to the appeal is a sense that Asia's financial markets are finally becoming more sophisticated, creating opportunities in corporate finance, fund management and debt issuance.

"Fundamentally Asia is still a lending market," says Mr Robert Prowse, group general manager for the US and Asia at National Australia Bank in Melbourne. "But the process of securitisation is starting to gather pace."

With the striking exception of China, which has taken advantage of a surge in its own share markets to float a long list of new companies, bankers say the economic slowdown in Asia has reduced the flow of new regional equity and privatisation issues.



Equally, though, the resulting reduction in inflationary pressures seems to be helping to stimulate a long-awaited development of the region's bond markets.

Already Asian borrowers have become more active in international debt markets, particularly in the yankee bond market in the US where several, ranging from Reliance Industries of India to Tenaga, the Malaysian electric utility, have raised money over 100 years.

For sovereign borrowers the aim has been to establish a benchmark borrowing off which corporate borrowers can price their own issues. For corporate borrowers raising such long-term money is akin to raising equity as the real value of the principal will have shrunk to almost nothing by the time it eventually has to be repaid.

A window of opportunity for such issues was created in recent months by demand from US institutions for higher yielding paper. They were prepared to sacrifice credit quality to offset low returns on US Treasury bonds. Some Asian corporates found it useful to issue long-term debt because equity had become expensive, says Mr Oliver Jory, of Morgan Stanley in Hong Kong.

In the process, however, they are starting to become more familiar with the idea of debt issuance. This has been long resisted by many of Asia's family-controlled businesses which, when they borrow at all, prefer the less onerous disclosure requirements of bank borrowing.

Meanwhile, Asia's own local currency markets are finally starting to emerge, again *largely* thanks *to* the presence of international funds seeking yield.

Not only have the World Bank and European Bank for Reconstruction and Development raised funds in Korean won this year, the market for eurobonds denominated in Philippine pesos sprang to life in March with issues worth some 10bn pesos. This has been followed by a government effort to develop the domestic market with the launch last month of a 20-year bond.

Even so, bankers say the markets remain embryonic. One cause of concern among governments is that uncon*trolled offshore markets* could make countries vul*nerable to a Mexico-style* crisis, says Mr Peter Balon, assistant treasurer of the Asian Development Bank.

*For regional currency mar*kets to offer depth, liquidity and stability, there is a need for a strong domestic inves*tor base and infrastructure* which provides services such as efficient settlement and rating, Mr Balon says.

Some bankers are now beginning to discern the development of a more sophisticated approach in which Asian corporate treasurers are slowly becoming more accustomed to using the capital markets both to raise resources and for liquidity management.

Inefficiency among the region's banks has prevented them from doing so effectively, argues Mr Ma Guonan of Bankers Trust in Hong Kong. Too often, they have instead taken the seemingly easy route to profits of piling money into property and stock market invest*ments.*

This has forced many Asian countries to raise resources abroad to finance their industrial development, fuelling the external payments imbalance that is now a source of worry in Thailand and elsewhere, he says.

Better regulation will mean stricter imposition of capital requirements, more transparent accounting and disclosure and better prudential management by regulators to prevent banks running up excessive exposure to the property market.

If the present banking troubles lead to progress in this regard, then Asia's future growth will be sustained by much sounder banking. But, adds Mr Ma, it is also desirable to strengthen the financial sector in its own right.

As the region's economies mature, he says, financial services will account for a higher share of economic output. *Asian economies* themselves will then increasingly be judged on their financial sector's perfor*mance.*

DERIVATIVES • by James Kynge

Ingenious new ideas for futures

Demand for derivative instruments shows no sign of abating

There can be few better symbols of the ingenuity and drive which has helped make Singapore the financial centre of south-east Asia than the Singapore International Monetary Exchange. Simex, the first financial futures market in Asia. Since it was founded in 1984, it has set up 19 international futures and options contracts based on offshore financial derivatives.

Yet demand for such instruments shows no sign of abating and the ever-swelling numbers of foreign financial institutions in Singapore (there are 220 international banks there now) present the authorities with a real challenge – to sustain the supply of exciting derivative products without annoying other countries in the region which have their own ambitions to build local derivatives markets.

"Singapore's future as a financial centre will depend on its ability to meet demand for more sophisticated and innovative products and services," said Mr Richard Hu, the finance minister.

"These include foreign exchange and derivatives products and risk management, corporate finance and investment management."

The best recent example of the balancing act which Simex is forced to perform came early this year with the launch of an equity futures contract based on Taiwan's stock index. At first, Simex held back from launching the contract out of concern for the well-publicised ambitions of Taiwanese authorities to create their own futures market, Singaporean officials said. But then, when Simex heard that the Chicago Mercantile Exchange (CME) also had plans to start Taiwan stock futures trading, it decided that it could wait no longer.

Both Simex and the CME launched on the same day, January 9. Taiwan did not conceal its irritation. Its Securities and Exchange Commission announced that it reserved the right to cut off real-time stock price data used by both Simex and the CME. Meanwhile, a ban on Taiwanese investors and brokerages trading offshore index futures remains in force.

Taiwan's attitude sapped interest in the new contract and has been a factor in keeping daily turnover at more than 700 lots which, although more than on the CME, is considered lacklustre. There are, however, hopes that Taiwan's ban may be lifted after top officials in Taipei said recently that the government was "leaning toward" such an outcome.

The example of Taiwan shows the difficulties in finding attractive new products in Asia. The Singapore government's reluctance to internationalise the local dollar has so far effectively prevented the launch of any futures instruments based on the local economy or denominated in Singapore dollars. Political sensitivities, meanwhile, make it difficult – but not impossible – for Simex to launch products based on the markets of close neighbours such as Malaysia, Indonesia and Thailand.

But true to Simex's capacity for coming up with ingenious ideas, it is now looking to forge links with a European exchange with a view to starting a contract based on the single European currency, when it is introduced. Talks have been held with the London International Financial Futures and Options Exchange (Liffe), the French futures exchange, Matif and DTB, the German exchange, officials said. There are also plans to launch a futures contract on the Singapore Stock Exchange's regional index, but no timescale has been given for this.

While Simex looks for new ways to expand, there are signs that derivatives are gaining acceptance in other south-east Asian nations. Malaysia is the pioneer of a different model from Singapore – it is creating a derivatives market denominated in its domestic currency and based on local instruments. Indonesia and Thailand are watching developments in Malaysia with interest and are formulating their own plans for some types of futures contracts, officials said.

Malaysia's draw is its stock market, the third largest in Asia after Tokyo and Hong Kong. In late 1995 it launched the Kuala Lumpur Options and Financial Futures Exchange (Kloffe), offering the first stock index futures contracts in south-east Asia which are denominated in a local currency. In early 1996, the Malaysian Monetary Exchange (MME) opened to offer the world's first ringgit interest rate futures.

"What is happening in Malaysia is exciting. They are building a fully integrated financial system based on the ringgit," says Mr Ralph Yiehmin Liu, managing director of Advanced Risk Management Solutions, a consultancy based in Singapore.

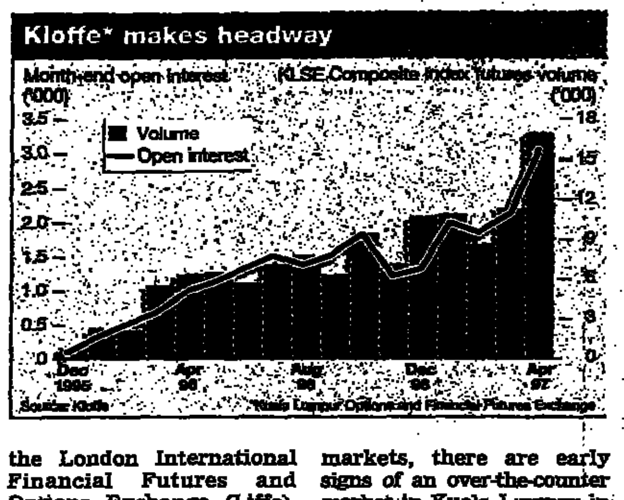
In addition to these formal markets, there are early signs of an over-the-counter market in Kuala Lumpur in interest rate swaps between local banks and corporate customers. By trading the three-month Klibor (Kuala Lumpur interbank offered rate) contract on the MME, banks are also looking into quoting forward rate agreements for their corporate clients, bankers said.

While trading on the MME has been relatively lacklustre, the Kloffe futures contract on the Kuala Lumpur Stock Exchange's composite index is beginning to make significant headway. Driven partly by the requirement of market players to hedge their risk in the recently falling market, average daily turnover in April rose to more than 850 lots, up from 523 lots in March, said Mr John Duggan, Kloffe's chief executive officer.

"The increase in volume is very encouraging. We are seeing a lot of interest from Malaysian retail clients and foreign players are also in there," says Mr Duggan, who regards a daily average of 1,200 contracts as a comfortable level of liquidity for the medium term.

Malaysian institutional investors, however, remain somewhat slow to use the contracts, partly because of a residual scepticism bred from the collapse of Barings Bank in 1995 through derivatives losses. But, Mr Duggan says, such such institutions will be left with no choice but to hedge their exposure to the cash market when it becomes clear to investors that the funds they manage have underperformed. "There is nothing like a falling (stock) market to concentrate the mind," he says.

Kloffe* makes headway



Source: Kloffe

EQUITIES • by Louise Lucas

Capital raisers fly high

In a quest for an estimated $25bn bankers have been clocking up many air miles

International equity issuance (US$m)

	1993	1994	1995	1996	1997*
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
China	1,897.11	2,601.97	926.47	2,278.40	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
India	895.87	3,599.69	274.02	1,676.51	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Korea (South)	869.34	1,785.70	2,039.78	2,802.68	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	472.32	0.00	0.00	108.80	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	430.34	1,429.70	1,090.82	1,588.63	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Taiwan	150.12	2,401.84	1,019.11	1,395.51	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	13,426.15	20,874.58	11,076.68	23,148.86	7,209.18

* First quarter

Source: Morgan Stanley Asia

Bankers raising capital in Asia are clocking up record numbers of air miles this year.

A combination of mostly strong markets in the first quarter and huge demand for cash – to provide electricity or to fund the next phase of corporate expansion – has ensured that the average Hong Kong or Singapore-based banker is spending a good deal of time strapped in an aeroplane seat.

Mr Mark Hantho, managing director at Morgan Stanley Asia, estimates total capital raising in the region will reach a record $25bn (£15bn) this year, but adds that there is "a little bit of a cloud" emerging from Korea and Thailand. The financial problems in the kingdom highlight how rapidly situations can change. Just two years ago Thailand was much courted by investors.

Since 1993, when equity capital raising in Asia took off, the most active markets have been Hong Kong and China, typically accounting for 30 per cent to 40 per cent of volume.

In Hong Kong listing applications are piling up from both local and mainland companies. Infrastructure in China remains a dominant theme, with more than $1bn worth of toll roads in the pipeline.

As the capital raising markets in Asia have flourished, so new trends have emerged. Mr Hantho says that last year saw the emergence of the initial public offering as both family-held and conglomerate-style companies hived off infrastructure arms to enhance shareholder value.

Examples include Hutchison Whampoa, the Hong Kong conglomerate, which spun off Orange, its UK mobile phones operator, and New World Development, one of the territory's biggest property developers, which floated New World Infrastructure.

"The IPO market has become much more relevant as a percentage of overall issuance. In particular, 1996 was a very big year, in that it was hitting peak volumes of $20bn without the existance of substantial privatisations. This says a lot about how corporate business is growing here in terms of raising capital," he says.

Hong Kong public companies are capitalising on strong sentiment to issue more shares – a strategy favoured by the red chips, or mainland backed counters, which are the current darling stocks in Hong Kong.

Buyers have been drawn to the sector partly by the healthier outlook for China's economy, but mainly because, following precedent investors expect more injections of high quality assets at favourable prices, from the parent to the Hong Kong listed arm.

Mr Eamonn McManus, director and head of corporate finance and equity capital markets at HSBC Investment Banking, expects Hong Kong this year to be "at least as active as last year, but with more emphasis on China related issues". Part of this will be the H shares, the former state-owned enterprises which secure a Hong Kong listing.

China earlier this year unveiled the names of 38 companies approved for an overseas listing – the bulk of which are in Hong Kong. This was its fourth batch since the inaugural list was compiled in 1992.

In addition, a number of companies from the second and third batches have yet to be listed. Bankers expect about a dozen H share companies to make it to market this year, assuming the market holds – and there has been some weakening, particularly following the interest rate hike in late March.

Among these companies is Jiangsu Expressway, which is likely to be the biggest H share issue yet. It is looking to raise about $400m. The company has the 275km road linking Nanjing to Shanghai and will be the window company for what is China's wealthiest province after Guangdong.

But in China itself the B share markets – theoretically the preserve of foreign investors but in practice traded by an almost equal number of domestic investors – are likely to remain in the shadow of H shares.

Foreign investors prefer the liquidity offered by Hong Kong – Asia's biggest market after Tokyo – and also the legal environment and disclosure and transparency standards. The Chinese government is doing its bit to improve the lot of B shares. Its most recent list of B share candidates increased the average size and, analysts say, put more stress on quality.

Thailand and Korea have been among the least active markets this year, bankers say. This results from investor scepticism and companies avoiding the raising of capital while valuations are low. The queue of telecom and utility privatisations in Thailand is likely to be deferred, bankers say.

Malaysia and Singapore are also expected to have a dull year, but in Taiwan the convertible market is likely to thrive. Placements or block trades are likewise popular, and sectors planning to tap the market for cash include power, energy and telecoms.

Indonesia has a handful of privatisations scheduled, including a follow-up issue from PT Telkom and power issues, although the timing is uncertain. Bankers say the biggest cash raisings could come from existing companies making new bids for capital, but Garuda Airlines is being watched for a potential offering.

Market strength in the Philippines has not been matched by liquidity, and Mr McManus points out that in spite of the 22 per cent rise in the index last year all but two of the last year's 18 listings are trading below their issue price.

But given better quality listings, and bigger sizes, he foresees a strong 1997 for the Philippines both in equity and convertible issues. Important issues include Smart Communications, the cellular telecoms group which is looking to raise $205m to $341m in June or July.

After a rough start Videsh Sanchar Nigam, India's sole international telecoms provider, launched a successful $448m international equity issue in March – the country's biggest – and is expected to pave the way for more.

Indian issues in the pipeline include Indian Oil, which is seeking $350m to $400m.

FUND MANAGEMENT • by Louise Lucas

Doors are swinging open

There is a very strong regional growth phase with significant deregulation

So far as fund managers are concerned, Asia is getting bigger. Deregulation coupled with a growing government awareness of the need for retirement provisions is opening doors across the region.

"We are in a very strong regional growth phase," says Mr Mark White, chief executive of Jardine Fleming Investment Management. Japan, in the throes of its own "big bang" deregulation, presents one of the biggest opportunities, but it is far from the only one.

"Significant deregulation is taking place within other markets outside the traditional fund management centres of Hong Kong and Singapore," says Mr Bob Duggins, chief executive Asia Pacific of HSBC Asset Management.

"We are seeing a pace of deregulation that's quickening, and we're seeing it take place in almost every market in the region. Korea is deregulating its own domestic industry, which will make it more easy for foreign companies to set up there, and distribution of product is the first sign of that."

Korea is attracting a fair share of the industry's attention. Mr Stewart Aldcroft, marketing and sales director at Templeton Franklin Investment Services (Asia), notes that it is the ninth biggest mutual fund country but 80 per cent of business has been going into bond funds because of the high interest rates.

Templeton has been one of the first fund managers to hone in on Korea, launching five existing Templeton funds there earlier this month in spite of the hiccups that followed the release of regulations last December.

"Every time we looked at the laws a minor change had been made to make it more difficult, because the authorities realised that with the dreadful performance record of the market they might end up with something attractive to local people, and see a vast amount of money going out of the Korean market," says Mr Aldcroft.

Other markets beginning to prise open include China – which issued its first industry-specific guidelines for opening representative offices in June last year – and Indonesia, where rules permit fund management joint ventures.

But if the new markets ultimately stand to offer what tiny Hong Kong and Singapore can never deliver – big populations – the two time-honoured favourites are unlikely to see their lustre diminish.

Increasingly the trend among global fund managers is to operate out of both centres, devolving responsibilities along geographical lines, with Singapore covering the Association of South-East Asian Nations (Asean) region and Hong Kong covering greater China and North Asia.

Mr White distinguishes Singapore as the "sub hub", from where fund managers feed in, but believes the hub mantle belongs firmly to Hong Kong.

"This is getting an increasingly big territory to cover entirely out of Hong Kong, so the logistics will force a degree of sub-regionalisation – such as India, Japan, greater China, Singapore – to avoid people spending their entire time on aeroplanes," he says.

But the two centres do have a prospective rival nearer to home, and one which is doing its utmost to grab market share.

Mr Anwar Ibrahim, deputy prime minister of Malaysia, has made two trysting calls on Hong Kong fund managers in the past two years – most recently in March, when he met companies in the territory to outline the steps Malaysia is taking towards liberalisation.

Malaysia has put forward two proposals – either wholly-owned activities, which carry tax advantages but have restricted scope, or joint ventures, which are allowed to engage in local business. For the first 10 qualifying companies there is the added lure of a licence to sell fund management services in the retail market, says Mr Aldcroft.

Kuala Lumpur is essentially pitching itself as a second base to companies already established in Hong Kong. Advantages include a vastly bigger population and rapidly expanding middle class, political stability, and the opportunity to manage part of the Employee Pension Fund, the country's retirement scheme which boasts bigger assets than those of Singapore's Central Provident Fund.

Disadvantages include relatively tight restrictions on investment and stipulations on the money that can be taken out the country. Moreover, in response to the Malaysian initiative, Singapore has become slightly more flexible.

Are fund managers won over? "Malaysia has certainly not got rid of (its first) 10 places, but I would not like to be the eleventh," says Mr Aldcroft, who adds that the idea is "nevertheless quite good".

Mr Stuart Leckie, chairman Asia Pacific at Fidelity Investments, says the US giant would not consider Malaysia in the short term, although it would in the medium term. Fidelity has its regional headquarters in Hong Kong, and a small office in Singapore which it is committed to expanding.

It all helps, says Mr Duggins, but the biggest financial carrots are those being waved in Japan.

"There we are seeing definitive signs. For the first time insurance companies, life and non-life, are allowed to get into each other's marketplace, and the distribution of mutual funds has been widened," he says.

In addition to deregulation, another big sea change is blowing across Asia – as well as much of the globe – in the form of the move towards defined contributions in pension plans. This change will blur the distinction between pension and mutual fund savings.

Mr Duggins highlights Beijing's support of Hong Kong's Mandatory Provident Fund and defined contribution model, and suggests it could prove to be a suitable model for the mainland to adopt in future.

He says: "This is going to be one of the critical changes that will fundamentally change the way the industry has traditionally operated in this part of the world. Managing individual assets rather than institutional assets requires you to communicate more effectively" – and brings the prospect of increasing private wealth requiring management.

CURRENCY TRADING • by James Kynge

Exotics reach the major league

Many European banks are strengthening their forex operations in Asia

It is a measure of the *growing importance of Asian* "exotic" currencies that Standard Chartered Bank has set up its biggest dealing room in Singapore.

Row after row of the dealers who sit facing banks of electronic screens are trading the currencies of Asian countries, as well as those of the G7 *nations. For Standard* Chartered, and its chief rivals, Citibank and HSBC Midland, the market in Asian "exotics" is no longer emerging; it has well and truly emerged. Indeed, Standard Chartered eschews the word "exotics" and says that the term "Asian majors" is *more appropriate to describe* the more liquid currencies such as the Singapore dollar, the Thai baht, the Indonesian rupiah, the Malaysian ringgit and the Hong Kong dollar. Other, less liquid currencies such as the South Korean won, the Taiwan dollar, the Philippine peso and the Vietnamese dong are sometimes thought of as "Asia minors".

"We have to make sure we are at the forefront of the development of the next wave of Asian currencies," says Mr Michael Rees, regional treasurer at Standard Chartered in Singapore. "Because of that we have relocated our options and forex derivatives teams from London to be based in Singapore, nearer to our franchise and customer strengths."

From a numerical strength of around 65 last November, Standard Chartered now has some 90 people involved in a full range of currency dealing services, including derivatives where the markets exist. They are by no means the only bank to have strengthened their operation or set up in Singapore lately.

First Chicago NBD Corp, the ninth largest US bank, entered the south-east Asian exotics market last November with 18 staff dedicated to foreign exchange. Credit Suisse has made Singapore its south-east Asian regional centre for treasury, private banking and investment management operations. Many others have done the same.

Mr Richard Hu, the finance minister, says that Singapore is now the fourth largest currency trading centre in the world and the biggest centre of non-yen trade in Asia. Tokyo, of course, *surpasses it* if yen trade is included. The average daily

Richard Hu: Singapore is Asia's largest non-yen trading centre

turnover *is now more than* US$190bn, up from US$111bn in 1995 and US$100bn in 1994. A total of 220 international and merchant banks keep offices in Singapore, of which 80 have made the island their regional headquarters for at least some of their operations.

There are a number of forces driving the burgeoning Asian currency trade and the *emergence of Singa*pore as its centre. One is the process of European integration. "With the impending creation of the single European currency, many European banks are beefing up their foreign exchange trading operations in Asia to make up for the potential *loss of trading operations in* Europe," Mr Hu said.

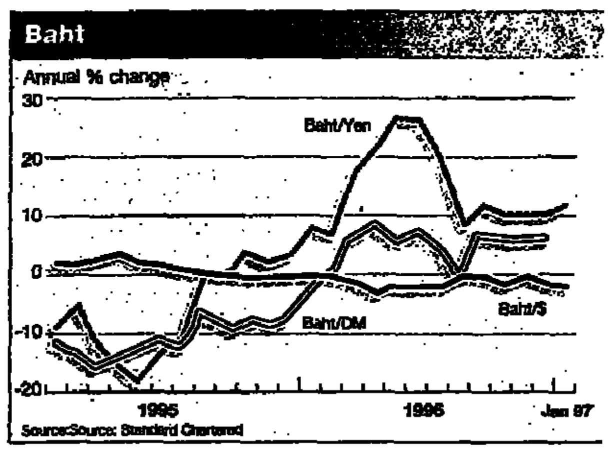
This reasoning, however, glosses over the harsher fact that many banks are driven to south-east Asia – at least in part – by overcapacity in the industry in Europe and in the US, and by a general decrease in volatility in G7 currencies. "It is a bit sad," said one regional treasurer. "I get a lot of job applications from dealers in Europe *but I have to turn most of* them down."

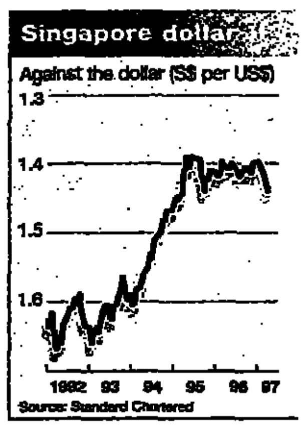
What is less certain is the extent to which Singapore's emergence has come at the expense of Hong Kong. Bankers are wary of according a lesser importance to their Hong Kong operations for fear of upsetting China, *which is due to take back* the British colony on July 1. Singaporean officials shy away from comparisons with Hong Kong for the same reason. But observers say there has certainly been a significant movement in treasury operations from Hong Kong to Singapore over the past *two years, along with some* of the journalists who specialise in reporting on the non-Japan Asian currency trade.

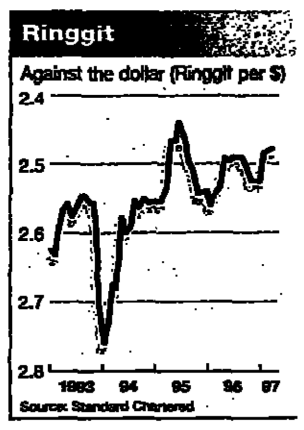
To an extent, banks have enhanced their treasury operations to serve corporate clients, especially the multinationals who are investing strongly in south-east Asia *and who are behind a spiral*ling demand for trade financing, such as letters of credit, as well as various forms of currency risk management.

"The number of requests by corporations for presentations on managing currency risk has really increased," says Mr Vincent Low, regional economist at J.P. Morgan in Singapore.

While some institutions *orient themselves mainly* toward multinationals, others such as Standard Chartered, Citibank and HSBC Midland, are increasingly targeting domestic corporate clients by setting up a network of offices across the region. They see this process as essential to facilitating *the information flow from* governments and authorities







which often appear less than transparent to outsiders.

There is also much money to be won – and lost – by speculating on Asian exotics. The spread between the bid and offer prices of such currencies is often much wider than on their G7 counterparts. "The typical spread on the D-Mark is two pips but on the Indonesian rupiah of late, it has been 33 pips," said one dealer. He expected yen cross-trading against *exotic currencies to increase* because of the yen's important role in trade and debt in the region. Virtually all exotic trading is conducted through the dollar.

The significant level of political and economic uncertainty in several south-east Asian nations is widely seen as helping to provide a level of currency volatility. As long as such uncertainty does not turn to crisis, currency dealers savour the trading opportunities. "The Malaysian ringgit has been behaving a bit like a G7 currency recently. It has swung back and forth a lot over the last few weeks," said a treasurer.

But this opportunity *brings with it some ticklish* situations. South-east Asian nations have for years set great store by currency stability; they regard it as an essential precondition to wooing the manufacturing *investment they need to* modernise their economies. For this reason, bank treasury operations are often eager to be seen not as speculators but as providing a hedging service to corporate clients. Similarly, Singaporean officials are reluctant to provide figures on the turn*over in Asian exotics,* because to do so might leave the city-state open to accusations from its neighbours that it is promoting speculation.

But although speculation has been almost a dirty word within the confines of some south-east Asian central banks, *there are signs that* both Thailand and Indonesia have decided to allow more flexibility in the narrow trading bands within which their currencies trade. This would provide economic policy makers in these countries with greater freedom in setting interest rates and dictating domestic monetary policy. Such flexibility may also help drive further *growth in regional currency* trade.

BOND MARKETS • by Peter Montagnon

Paper tigers awake

Until recently there has been little serious activity outside Hong Kong

Two years ago the World Bank caused a stir with a study of Asia's emerging bond markets which said that the value of paper outstanding in the region was likely to triple to more than $1,000bn by 2004 from $338m in 1994.

*Until this year its opti*mism seemed premature.

Hong Kong has developed an active and sophisticated debt security market in local currency which can absorb issues with a maturity as long as 10 years, but until recently there was little sign of serious development elsewhere.

In most parts of Asia the development of domestic bonds remains embryonic. "For debt markets to grow in local currency you need several building blocks," says *Mr Oliver Jory*, of Morgan Stanley in Hong Kong. Among these are an institutional investor base to provide liquidity, a proper trading infrastructure including settlement systems, and transparent information, he says.

Other bankers note that, with many south-east Asian countries running balanced budgets or fiscal surpluses, *there is a dearth of bench*mark issues from which corporate bonds could be priced.

Now, however, there are tentative signs that the pace of change may be starting to pick up.

■ Peregrine Securities announced that fixed income *business was the biggest* contributor to its 1996 pretax operating profit, with the total more than doubling to HK$381.5m. Peregrine says it does about 70 per cent of its debt business in Asian regional currencies, a figure that is all the more striking because it does not trade Hong Kong dollar paper.

■ March saw a spate of eurobond issues in Philip*pine pesos for a total of* nearly 10bn pesos. In April the World Bank and the European Bank for Reconstruction and Development announced issues in Korean Won. *The Asian Develop*ment Bank has also raised funds in Taiwan dollars.

■ China is making a concerted attempt to develop its domestic bond market as a means of financing infrastructure needs, although these issues remain closed to foreigners. It has also recently announced a plan to allow state enterprises to issue convertible bonds as a *prelude to full privatisation.*

Much of the paper that pioneers such as Peregrine – and increasingly, big international investment banks – have been trading so far is made up of short-dated securities often *issued by banks,* and in which banks are also often the ultimate end-investor.

But according to Mr Jaideep Krishna, of Peregrine Securities in Hong Kong, this is changing. Corporate borrowers have started to use the debt markets more, *and in some countries the* maturities have been rising.

The Malaysian market has seen maturities moving out to 30 years, he says, while five to seven years are quite common in Indonesian rupiah. Many investors are still banks, he adds. For example demand for europeso paper was driven by liquidity in the Philippine banking system. But gradually international traders are using the currency swap market to attract international investors into some of Asian regional issues.

Other buyers are attracted by the higher yield on Asian currencies compared with that available on dollars or Japanese yen. They are pre*pared to take some currency* risk as a result.

"The development of trading suggests that the liquidity base to the secondary market needs to be developed ahead of the primary market," says Mr John Mulcahy, managing director of W.I.Carr (Far East).

Yet the scale of fixed income business now starting to develop remains *far short* of what the World Bank clearly had in mind with its millennium forecast. *In general Asian govern*ments are keen to develop their bond markets, says Mr Peter Balon, assistant treasurer of the Asian Development Bank. But they are concerned about how it should be done.

During the Mexican crisis governments in Asia saw the risk of allowing markets to be developed offshore where they could not be controlled, so they are suspicious of hot money. "We are trying to ensure the development of *an investor base and an* infrastructure for debt markets. You need a strong domestic market to underpin liquidity," Mr Balon says.

One concern, other bankers say, is that the issue of *offshore bonds in Philippine* currency will do little to help the domestic market develop. That needs deeper banking reforms.

Nor does the Philippines yet boast a sufficient array of institutions such as pension funds and insurance companies to provide liquid*ity. Even in Malaysia, where* the Employee Provident Fund has a large appetite for paper, an issue can be snapped up but then simply held to maturity.

Bankers such as Mr Mulcahy of W.I.Carr believe that the present Asian slowdown, with its damping effect on *inflation may encourage* greater investor interest in bonds. The presence of more corporate borrowers suggests family-controlled Asian businesses are not quite so reluctant to issue debt as many have previously argued.

Though entrepreneurs have preferred to use a combination of equity finance, bank loans and internally *generated funding to meet* their needs, the large recourse of Indonesian companies to private placements in the US under the Securities and Exchange Commission's rule 144a suggests a lack of dogmatism.

In Washington Mr Michael Walton, the World Bank's chief economist for East Asia and the Pacific, says there still could be some *rapid growth* of the bond markets.

PROJECT FINANCE • by Frank Gray

Powerhouse for foreign funding

The amount of western-supplied commercial debt for schemes could reach $25bn

Most of Asia's developing countries have now swung firmly behind the concept of largely foreign-supplied independent power projects and are confidently forecasting a near doubling of new installed power generating capacity by 2010.

Analysts estimate the amount of western-supplied commercial debt for schemes in south-east Asia alone – at present the hottest region in all Asia for such business – could reach $25bn. This means the demand for more power is creating a corresponding demand for new and innovative forms of project finance.

For the nine countries of Indo-China and south-east Asia, this means 100,000MW, of which up to half could be independently supplied and financed, with the balance to be built as state-owned projects.

Taiwan has declared that all new thermal power projects will be built and operated by the private sector. China is seeing an upsurge in foreign-built power schemes and Chinese partners in such schemes are starting to issue shares on western stock exchanges to help raise funds.

India, which would like to more than double its present 85,000MW by 2010, has identified some 80 projects available to private sector developers.

According to Mr Mark Kantor, project finance specialist and partner for Milbank, Tweed, Hadley & McCloy in Washington DC, fund-raising to support independent power producer (IPP) schemes is becoming more complicated compared with the relatively simple build, operate, transfer (BOT) deals undertaken in the early 1990s, notably in the Philippines, the first country outside China where BOT deals were put together.

"At that time, the only focus by the developer was to get the power station built. Because of the electricity crisis in the Philippines, the sovereign government was prepared to guarantee fuel supply for the project and the distribution of the power from the plant. For the sponsors, and the banks, the risk to be evaluated was on the project itself," Mr Kantor says.

Since then, governments have been less willing or able to provide such guarantees.

This has meant that the road to financial close – the moment when all financing for the project is in place and ready to flow – is taking longer to achieve.

Projects are becoming more integrated whereby the sponsors and their bankers now have to consider both the upstream (the fuel supply for the project) and the downstream (the electricity transmission and distribution) aspects.

Lenders to power project now evaluate the viability of projects on that upstream and downstream basis. Two cases in point are Indonesia's first two Paiton power projects, both built on an IPP basis and each with 1,200MW and requiring the supply of coal as well as the construction of coal terminals and transport systems and close liaison with PLN, Indonesia's state utility.

Before the power stations could be finally agreed, the other aspects of the deal had to be put in place as well, Mr Kantor noted.

The big hurdle is foreign exchange. Electricity bills are paid for in local currency, but bankers have to be paid in hard currency.

In Malaysia a robust national capital market and skilled contractors can structure the foreign exchange element. But in Pakistan foreign exchange problems have brought IPPs to a halt. The Paiton deals have been two of the largest IPP financings in Asia. Paiton 1 called for $1.82bn in debt financing against a total project cost of $2.5bn.

The joint venture comprises Mission Energy, GE Capital and Mitsui of Japan, and an Indonesian partner P.T. Batu Hitam Perkasa.

Paiton II, a $1.65bn project, reached financial close last year with agreement on a $1.36bn commercial financing package. The main sponsors are Siemens Power of Germany, PowerGen of the UK and Bumipertiwi Tatapradipta of Indonesia.

"The fundamentals of project finance are all the same throughout the world; what makes a project attractive and what makes it financeable are really all the same," said Mr Michael Kappaz, chief executive of K&M Engineering of the US which is an equity partner in Pakistan's Hab River power project.

They are:

■ Does the project make sense for the buyer – is it needed and is its price competitive?

■ Does the project make use of proven technology?

■ How long between work start-up and first power – and first revenues from power sales?

■ Are debt coverage ratios ample and able to withstand adverse events?

■ Is the client creditworthy?

Though government guarantees were difficult to obtain, Mr Kappaz said a useful tool in winning the confidence of lenders was the World Bank Guarantee, a facility in which the Bank assumes some sovereign risk, enabling commercial lenders to consider only the commercial risk. Increasingly, "cocktails" of finance are needed to bring negotiations to a close.

TRADE RESTRICTIONS • by Nancy Dunne

Barriers frustrate investors

Many Asian countries still impose severe restrictions on foreign institutions

Foreign banks, securities businesses and insurance companies are casting ravenous eyes on the populous Asian market. Not only is there a massive infrastructure deficit, ready to be filled and financed, but the propensity of Asians to save and invest draws expansion-minded bankers from all over the US and Europe.

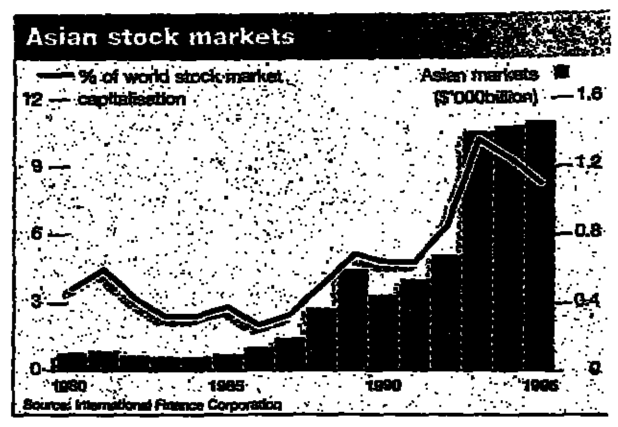
Asian barriers to entry have begun to come down, but overseas investors have been repeatedly frustrated by the failure of countries to follow up on pledges of liberalisation. Indonesia, for example, is acutely aware that growing levels of foreign investment are essential to its economic development plans, particularly as it faces increasing competition for funds from China, Vietnam, India and eastern Europe.

Jakarta has promised to remove all restrictions by 2020, but it has yet to produce a plan of action. A decree issued three years ago, allowing 100 per cent foreign ownership of companies, has never been implemented, and access for foreign financial services providers remains mostly limited to minority shares in joint ventures.

The Philippines has moved in two to three years from a nearly closed market to one offering a roughly level playing field for foreign banks which have operated in the country. However, newcomers still are subject to restrictions, and promises made in the Uruguay Round have not always been matched by domestic legislation. Analysts worry that there may not be sufficient political support for further opening the market.

Asia's intentions are crucial to the third attempt at concluding a multilateral pact on financial services. Talks are now under way and are due to conclude at the end of the year. As it has in the past, the US has vowed not to enter a final agreement without a "critical mass" of tempting offers, mostly in Asia.

Asian stock markets



Key statistics

	Savings rate 1994-95 (% of GDP)	July 1995 population (m)	Electricity consumption (Kwh per capita 1993)	Telephones (population per telephone)
China	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	32.2	5.5	4,628	1
India	[illegible]	[illegible]	[illegible]	[illegible]
Indonesia	30.3	203.6	207	267
Malaysia	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	18.7	73.3	278	84
Singapore	[illegible]	[illegible]	[illegible]	[illegible]
South Korea	39.5	45.6	2,847	3
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand	32.4	60.3	909	82
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: The World Factbook 1995, CIA; Merrill Lynch; BIS Annual Report * Mid-1994

Two years ago, the European Union and other countries agreed a partial liberalisation on financial services, which basically kept the issue afloat. The US financial services coalition has broadened with the addition of new securities firms and financial information providers.

This could make a deal more likely. Whereas the goal two years ago was for higher equity levels in banks, the new members put greater stress on gaining the right to operate with flexibility.

Mr Steve Judge, of the US Securities Industry Association (SIA), said securities firms increasingly have been following their business clients overseas. However, local laws prevent them from structuring their businesses efficiently – or even establishing offices. They face investment limits, strict foreign exchange controls, curbs on the introduction of new products, and complicated, sometimes impenetrable, regulatory barriers.

"The game could be very different this year from 1995," said one insider. "The issues are widening, which could give the Asians greater freedom of choice about which areas they can promise to liberalise."

Many eyes are on Malaysia, where progress has been slow. According to an SIA report, Malaysia has not deviated from a laisser faire economic approach in broad policy terms in more than three decades. "But the government is, in many respects, highly interventionist, regulatory and inflexible," it said. Access for foreign companies is severely restricted to minority shareholding.

Malaysia severely limits access for new companies in all sectors, with a few exceptions, such as charge card companies and offshore banks. New branching operations are not allowed, and the number of foreign managers and specialists allowed to work in Malaysia is restricted. Insurance companies say they are being unfairly forced to restructure and divest to a minority foreign shareholding.

Korea began reforming its financial services system to join the Organisation for Economic Co-operation and Development. But many restrictions remain. Foreign participation in the financial services sector is limited to 15 per cent. Foreign ownership is limited to 50 per cent of banking joint ventures and 49 per cent in life insurance.

Foreign banks in Korea face many curbs. Access is limited in the credit card market. Loans from foreign bank branches to single customers are limited to 15 per cent of capital for direct loans and 30 per cent for indirect liabilities. Banks must obtain government approval for increases in their paid-in capital. Limits are imposed on refinancing, operations in local currency, local financing for foreign companies, and the issuing of certificates of deposit.

In Singapore, foreign banks are limited to only one office, unless they were in the country before 1972. Foreign banks are prohibited from opening new sub-branches or establishing off-premise automatic telling machines (ATMs). Access to local electronic banking services is heavily restricted. Offshore banks are forbidden to participate in core banking activities and many routine transactions – such as dollar loans to non-residents – requires government approval.

Thailand is gradually opening its market to foreign institutions. But the government refuses licences for wholly-owned subsidiaries. The number of foreign banks entering offshore is limited and new access to the domestic market is confined to foreign banks with offshore licences. Foreign investment in existing or new Thai banks is capped at 25 per cent.

"Thai authorities have expressed a desire to develop and internationalise their domestic debt market," the SIA said. "This is more evident in a relaxation of the restrictions on Thai entities issuing debentures and other debt instruments than in allowing foreign financial institutions to become involved in the domestic market."

India has been taking cautious steps towards liberalisation. Foreign banks are limited to a 15 per cent share of the banking system's assets, and they pay higher tax rates (48 per cent) than do domestic banks (35 per cent).

Foreign securities firms have helped raise badly needed new capital. But India's regulatory regime is described as still "protectionist and quite heavily regulated", by SIA. It is also so complex that it is not yet clear when tax treatment and profit repatriation restrictions will be eased.

India has long resisted pressure to liberalise its insurance sector, and the state monopoly still exists. Foreign providers are limited to cross-border trade in marine and aviation insurance or re-insurance for residual uncovered risk not placed with Indian companies. The government requires remittances from abroad for all expenses incurred by insurance resident representatives.

China's barriers are the steepest in Asia, but until it joins the World Trade Organisation little leverage can be exerted to open it up.

YANKEE BONDS • by Louise Lucas

Centuries lose their lustre

'They came, they saw, they did not like what they heard,' one banker says

The century bond market could prove to have had a short-lived existence in Asia. After a flurry of activity last year, the market appears to have turned with the suggested maiden issue from the Philippines central bank being shelved weeks after the April roadshow.

"They came, they saw, they did not like what they heard, they turned around and went back," says one banker of the Philippines central bank which had been looking to raise US$250m worth of 100-year money alongside a $500m tranche of 30-year debt.

The Philippines' turnaround came shortly after it received a credit upgrade, to BA1 (lower than the double uplift to investment grade which the more optimistic were hoping for) but also in the wake of a slight souring in sentiment on the country.

More important, bankers say, is the bigger picture: the changed debt environment. Interest rates are creeping up while credit spreads are still very tight. With uncertainties over the direction of interest rates, volatility has descended at the long end of the yield curve.

"It's a question of timing," says Mr Glenn Kim, senior vice-president (debt capital markets) for Lehman Brothers in Hong Kong.

"Hundred-year bonds are done around bullish times, when investors want to buy long, long-term assets, and right now people are the opposite. They're much more defensive: they want to wait and see if there's going to be another interest rate rise."

Mr Trevor Rowe, chairman of Salomon Brothers Asia Pacific which won the Philippines' mandate, agrees. He says the Philippines' deferral was prompted by skittish markets, and that the central bank will be back once the markets settle.

"The central bank is not looking to raise capital, it's looking to set a benchmark," he says. "A transaction could have been done but obviously on wider spreads and therefore defeating the strategic objective of creating benchmarks."

Spreads were tighter when Tenaga, the Malaysian electricity supplier rated A+/A1, set the Asian century-bond ball rolling in January last year. At the time the long bond was trading at around 6.10 per cent, or some 100 basis points lower than current rates.

Tenaga raised US$150m of 100-year funds at 142 basis points over 30-year US treasuries, tighter than the other three issues which followed.

Shortly after the Tenaga issue China (BBB/A3) went on to raise US$100m, and was followed in March by Korea Electric Power Corp (Kepco), the state-owned utility which raised US$208m.

Earlier this year the market notched up its first issue from a private Asian corporate, Reliance Industries, the Indian petrochemicals-to-textiles group.

Spreads widened during the year between the Tenaga and Reliance issues, from Tenaga's 142 basis points over 30-year US treasuries compared to Reliance's 355 basis points.

All four issues are now trading at tighter spreads than when they were issued, notes Mr Rowe. China, which is trading at the tightest spreads of all – a far cry from the early days – is being helped by the fact that the Chinese government is itself buying back paper because of its strong external reserve position.

The main engine behind the 1996 flurry of activity was historically low interest rates. In this environment yield-hungry investors sought debt with which they could still feel comfortable, and issuers were prepared to go into the market because rates were low and spreads sufficiently tight.

For corporates especially, century bonds are quasi-equity, or even cheap equity. For government issuers, the bonds benefit the country corporates by establishing pricing benchmarks.

> 'Investors want to see if there's going to be another interest rate rise'

Meanwhile, sentiment was warming on countries in the region, such as China and the Philippines, and awareness of the main corporate names was growing. Fostering this last phenomenon was the fact that Asian corporates were no longer as reluctant to seek credit ratings as they had been previously.

Finally, there was a sense of machismo driving Asia's century bond issuance: relaying a national message was partly behind China's 100-year bond – the country's re-entry to the debt markets – priced at 299 basis points over US treasuries.

Demand for the Asian century bonds has been almost exclusively in the US (although a small proportion of the Reliance debt was distributed in Europe and Asia), and bankers reckon the pending changes in the US tax regime will boost demand for Asian paper as US issuers are removed.

Not all bankers believe the party is over. The Philippines is still expected to return one day and bankers say they are still talking to potential issuers. "Yes, there will be interest once the general sentiment changes, but for now issuers are counting the pennies," says Mr Kim. "The market will come back because investors are still chasing duration," adds Mr Rowe.

A more sceptical peer disagrees. "The century bond is a typical product which has a very small window of opportunity. Then, as yields go up and credit spreads widen out in the next recession, people will just forget about them. We may never see them issued again."

CHINA • by James Harding

Hampered by bad debts

Fears of a crisis are muted, but non-performing loans are 20 per cent of assets

Bad debts overshadow China's commercial banks and, in theory at least, threaten the stability of the country's financial institutions.

Non-performing loans account for more than 20 per cent of the assets of China's state banks. At least 2 per cent of the loans are irrecoverable; some are untraceable.

The World Bank calculates that if non-performing assets are equivalent to about 20 per cent of the state commercial banks' portfolios, then the net worth of the banks is probably negative.

In most other countries that would suggest an impending catastrophe, but in China fears of a banking crisis are muted. Bad debts are just one of the issues to be tackled in a slow and gradual reform.

"Any bank in the western world would go under with that volume of bad debts, but the reason it does not matter in China is that the country is awash with growth and so you can roll over loans and roll over the interest," says the representative of one of the international financial institutions in China.

With the country growing at 9 per cent to 10 per cent a year, China's banks hope their balance sheets will look healthier as increased lending should make the problem of non-recoverable loans a relatively smaller problem. As one Hong Kong-based economist says: "China is trying to 'relativise' away the bad debt problem."

Mr Rajiv Lall, a former World Bank economist and now executive director of E.M. Warburg Pincus Asia, says that in spite of the figures "the stock of bad debts in the banking system is not astronomical."

The People's Bank of China, the central bank, accounts for about 25 per cent of state commercial bank liabilities, which suggests that if the commercial banks are forced to write off loans to defunct state-owned enterprises, the central bank could chose not to recover the loans made to the banks.

But even if Mr Lall discounts the possibility that the PBOC offers some leeway for the state banks, he believes the government can finance writing off bad debts by issuing public debt, which is still at a relatively low level.

Economists largely agree that China's bad debts do not necessarily portend disaster, but that is only on condition that the growth rate is maintained and bad lending is severely curtailed in future.

Mr Zhu Rongji, China's senior vice-premier in charge of the economic reform process, last month ordered the state banks to cut bad loans by 2 percentage points annually over the next few years.

"The financial sector must make a major push in 1997 to restore financial order and reduce risk," Mr Zhu told the National People's Congress, China's parliament.

Reducing bad debts is central to the process of transforming China's state commercial banks into genuinely autonomous commercial banks, an ambition the government would like to realise by 2000.

In 1984, in the early years of China's transition, the government transformed the PBOC into the country's central bank and its commercial and retail banking responsibilities were divided between four state banks: China Construction Bank; The Bank of China; Industrial and Commercial Bank of China; and Agricultural Bank of China.

Three policy banks were established in 1994, a move towards separating government-directed lending and strictly commercial transactions.

The following year, Beijing passed the commercial banking law, which forbids individuals from interfering in lending decisions, an attempt to stiffen the commercial rigour of the state commercial banks and prevent local political pressures from forcing banking officials to make bad loans.

As well as the state banks and policy banks, there are thousands of rural and urban credit co-operatives as well as a growing number of non-bank financial institutions.

As the four state banks account for about 80 per cent of the banking business, however, and employ nearly 1.5m people, the future of China's financial sector will to a large extent be shaped by the reforms of these banks.

Mr Di Weiping, vice president of the PBOC in Shanghai, says: "We have been working actively on the commercialisation of the domestic banking sector. The four state-owned banks are becoming more independent from government. This year we plan to further accelerate that process."

The government is giving the banks greater autonomy over managing their asset-liability ratios. The PBOC is relinquishing some control of bank lending – which it used to control through quotas, by adjusting lending limits to a ratio of deposits.

China has also reduced taxes on state-owned banks from 55 per cent to 33 per cent to bring them into line with foreign financial institutions, answering another complaint of China's bank managers.

Symbolically, the most significant reform this year has been the opening of the banking sector to foreign competition.

Nine banks – Hong Kong Shanghai Banking Corporation, Citibank, Sanwa Bank, Daiichi Kangyo Bank, Industrial Bank of Japan, Standard Chartered Bank, Shanghai Paris International Bank, Bank of Tokyo-Mitsubishi and Banque Indosuez – have been awarded licences to conduct Chinese currency business in Shanghai.

The banks are restricted to offering banking services only to foreign clients and there are limits on lending, regulations that ensure local banks will not be hurt by opening the sector to international competitors.

In an interview, Mr Di, who has worked on the opening of the banking sector for a couple of years, says: "The current programme is so restrictive... there can be no significant negative effect on domestic banks."

He foresees broad benefits to the domestic banks from allowing limited foreign competition, particularly as international competitors will bring "advanced technical knowhow and a lot of experience."

The crucial question remains structural rather than technical: Will China's banks be able to contain the historic bad debt problem or is new lending making the problem worse?

International financial institutions say they do not know the answer and fear that the "Chinese themselves do not know the full scale of the problem".

The World Bank said in a report last year that the first step for China's banks transforming themselves into commercial banking institutions "should be to conduct financial and human resource audits to ascertain their current position".

One western economist in Beijing suggests on anecdotal evidence that the bad loan problem may be growing as bank assets increase, because most enterprises today are still not meeting their loan obligations. He quotes a recent survey of lending in Shandong province in eastern China, where only 5 per cent of invested projects paid their loans on time.

"If you look at the state-owned enterprises (SOE) sector, it is not the case that the worst performers are the old businesses. One of the problems is that the worst SOEs have come on line in the last five years in industries such as textiles, food processing, radio and televisions," he says.

This is the most troubling issue for China's banks. "If you can prevent new losses from new lending, then by rolling over old debts, the bad assets will decrease over time," he says. "What you need to do, though, is to stop making new bad debts."

PROFILE **Liu Jinbao**, head of Bank of China's Shanghai branch

Smiling service, or else . . .

In the officious and often secretive world of China's state banking sector, Mr Liu Jinbao stands out as a flamboyant, outspoken and internationally-minded banker.

"I get things done sharp. Very quickly. Yes or no decisions," he says and, by way of an explanation, adds: "Once a dealer, always a dealer."

Mr Liu started his ascent in Bank of China as a young, aggressive foreign exchange trader in London and has since risen to become the head of the Shanghai branch, stamping his commercial mark on the culture of officialdom at BOC.

Shanghai is by far the most profitable domestic branch of Bank of China, the biggest of China's "Big Four" state commercial banks. About 30 BOC branches in China post losses year after year, but the Shanghai branch has been steadily building profits, recording Yn1.57bn profits in 1995, its third consecutive year at the top of the table.

Bad assets at Bank of China's regional offices are estimated at more than 15 per cent on average. Mr Liu says non-performing and irrecoverable loans at the Shanghai branch are less than 5 per cent of assets.

Mr Liu, a member of the National People's Congress, China's parliament, as well as a banker, believes it will be more than 10 years before BOC becomes "a genuine commercial bank".

He says that the biggest hurdle to full commercialisation is "decentralisation", by which he means freedom from the direct control of the People's Bank of China, the central bank, and the sway of government officials.

"The Bank of England does not interfere every day in your business if you are a bank in London. Here, the PBOC intervenes," he says.

Pressure from government also causes him "headaches", as the BOC is pushed into loans to help the government meet infrastructure objectives that he admits might not make strict commercial sense.

An example is a loan of about $80m for the construction of the Shanghai subway. "Fares will be so low that I do not see how they will make a return," says Mr Liu.

"It is a socialist country and we are a national bank, so we have to do certain things. We have to invest in it even though it is a risk for the bank, but have to support them or the municipal government will not support us in the future," he says.

Loans make up over 75 per cent of BOC Shanghai's income, with a further 15 per cent from fees and just 10 per cent from foreign exchange trading.

Liu Jinbao: his customers receive a friendly service

Mr Liu, who was sent to London in the late 1970s and traded on the European currencies markets, wishes the Shanghai branch could do more forex work. "The foreign exchange department is quiet, but as other banks have started doing more forex work, maybe we will reopen in the future."

The BOC head office in Beijing, headed by Mr Wang Xuebing, Mr Liu's old roommate at college, restricted regional branches from most foreign exchange activities after a number of exuberant but inexperienced provincial offices dabbled in the currencies markets, racking up enormous losses.

Perhaps Mr Liu's most conspicuous mark on banking in Shanghai has been his drive to build the BOC's retail business and introduce courteous customer service behind the counters.

Two years ago Mr Liu visited one of the bank's branches incognito and was kept waiting for 20 minutes while a cashier chatted with colleagues, brewed a cup of tea and made a long personal telephone call. When he told her this was no way to treat customers, she responded with the common Shanghainese rebuff: "This is none of your business!"

Plainly, it was. Mr Liu introduced fierce new rules for sales staff, who can now lose their perks and bonuses as well as damage their career prospects if a customer complains.

For Shanghai's increasingly metropolitan middle class, the BOC has introduced a 24-hour computerised banking branch, complete with ATM, automated safe deposit box, telephone banking and passbook processing.

The most hyped initiative was the "smiling service", which for one month required every one of BOC Shanghai's 4,200 staff to smile at work, an experiment which has since been farmed out to other branches and adopted by competing banks trying to introduce an element of friendliness to customer relations.

The commercial logic behind the customer service drive is not the retail business itself. Fixed time deposit rates tend to be higher than lending rates, so that the retail side "does not make profits, but maybe breaks even."

However, as part of China's banking reforms, BOC will be released next year from the quota on lending set by the PBOC, and will be allowed to make loans at a ratio to deposits. The growth of retail deposits will allow the lucrative commercial lending side to expand.

There is speculation about how long Mr Liu will be in his native Shanghai to preside over the BOC's expansion. There have been suggestions that he is destined for higher things, but his outspoken nature and cosmopolitan style have irritated some of the more conservative in the Beijing establishment.

But then, the headstrong Mr Liu has been good at changing to meet the needs of his environment.

A month before going to London at the age of 23, the bank's management told him he could not go as a single man. "Although I had some girlfriends, I did not have a real fiancee," he remembers, and adds proudly "but in two weeks, I had come back down to Shanghai, found my neighbour and we were married."

James Harding

6 ASIAN FINANCIAL MARKETS

Problem loans* (¥bn)

	Total assets		Problem Loans				Loan loss reserves		Recurring profits		Unrealised gains
		Loans	Total	Bankrupt	Overdue	Restructured	Total	Specific reserves	Average of past 3 yrs	Sept 1996 (half year)	
City banks	445,423	277,055	10,951	2,023	5,977	2,951	5,600	4,694	2,476	1,192	10,777
Long-term credit banks	85,005	51,462	2,721	359	1,956	406	1,137	947	389	237	2,228
Trust banks	284,904	58,285	3,741	589	2,236	916	1,504	1,291	405	798	3,109
Major banks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Regional banks	199,686	135,061	3,397	891	1,844	662	1,677	1,256	1,134	629	5,161
2nd tier regional banks	70,357	52,585	2,165	702	1,166	297	796	631	410	231	760
Regional total	270,043	187,646	5,562	[illegible]	3,030	959	2,473	1,887	1,544	860	5,921
All banks total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Co-operative-type institutions	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
of which Shinkin banks	110,169	69,569	3,370	1,150	2,133	87	1,127	824	676	410	483
Credit co-operatives	26,169	17,276	2,133	475	1,642	18	182	122	162	95	21
Agricultural co-ops	96,959	25,495	248	52	132	63	326	62	298	278	940
Grand total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* as classified by the MoF (at end of September 1996). The MoF estimated amount for the additional losses is ¥7,300bn. The following problem loans are not included: Kizu Credit Co-operatives (¥1,190bn), Osaka Credit Co-operatives ([illegible]), Kenmin Yamato Credit Co-operatives ([illegible]) and Sanyo Credit Co-operatives ([illegible]). Source: Ministry of Finance

JAPAN • by Gillian Tett

The long write-off road

The enduring problem of bad debts is putting competitiveness at risk

If the 14th largest bank of a country such as the UK or US had recently announced a new business link with a foreign partner, the news would be unlikely to provoke a media storm.

But when Nippon Credit Bank (NCB), one of Japan's ailing long-term credit banks, declared in April that it planned a business collaboration with the US group Bankers Trust, the move sent shock waves through Tokyo's financial sector.

The financial press devoted front-page articles to the issue. The link became a lead item on mainstream television news. Meanwhile, Japan's ministry of finance and the Bank of Japan both felt moved to issue specific statements indicating their support.

The frenzy was partly triggered by novelty: such a specific alliance between a non-Japanese and Japanese bank represents a first for Tokyo. However, it also highlights the broader anxiety gripping Japan's banks.

For, with plans afoot for widespread deregulation in the coming years, two crucial questions are hanging over the sector: first, whether Japan's ailing banks, such as NCB, will be able to bounce back from the bad debt problems created by the 1980s "bubble" and, second, whether the move to open Tokyo's markets to global competition will leave the sector at the mercy of foreign rivals.

On the issue of the bad debts, the prognosis remains mixed – not least because reliable information on the scale of the problem is lacking.

When it first became apparent in the early 1990s that the collapse of the property market had left the banking sector saddled with bad debts, the Japanese government insisted the problem would be solved rapidly. Then, when falling Japanese interest rates left the banks reporting strong operating profits in the 1995 fiscal year, they wrote off a large proportion of their bad loans – a move that pushed the sector into its first post-war loss.

The ministry of finance insists that this means that the damage is already being repaired. And, in recent months there have been signs that the government and banks are addressing the issue. The leading banks will announce further large bad loan write-offs when their results are published at the end of May – a move that will push the sector into its second year of loss.

Meanwhile, the recent saga at NCB, which has been one of the worst hit by the bad loan problem, has also provided encouragement. When it became clear that bad loan problems – of some ¥1,260bn – would leave the bank failing to meet the capital adequacy ratios this spring, the authorities announced a restructuring plan. However, in a new departure for Japan, NCB also made known that it was liquidating three of its non-banking financial subsidiaries, in a rigorous attempt to clean up its balance sheet.

However, concern about bad loans has barely diminished among western analysts. This is partly because of a widespread conviction that the official figures still severely understate the problem. Official sources reported ¥29,228bn (US$232bn) worth of bad loans in the banking system at the end of September 1996.

What has further fuelled concern is the fact that the bad loans themselves are symptomatic of a broader structural problem facing Japanese banks – namely their growing unprofitability.

The essential business problem is one of excess capacity. In recent years, the rate of growth in corporate lending business has fallen sharply, as companies have turned to capital markets for finance. This left the top 10 banks achieving an average rate of return on assets last year of a mere 0.53 per cent, according to UBS securities in Tokyo. And though the banks are all planning to move into new financial areas to develop new profit streams, their sheer number means that competition is intense.

The logical solution to this problem, most analysts argue, would be to reduce capacity in the system, through a series of mergers, acquisitions or bank failures. However, the ministry of finance is insisting that it will protect all top 20 banks – a policy given teeth in early April when the government stepped in to support the ailing NCB. And though one banking merger has been recently unveiled, such consolidation has been extremely slow.

This poor business background means that it might take a very long time for the weaker banks to write off their bad loans. Calculations by the credit rating agency, Moody's, for example, suggest that although the strongest banks such as Tokyo-Mitsubishi, Sumitomo, Sanwa or Fuji are projected to have cleared their bad debts within four years, NCB is likely to take 20 years to solve the problem.

The problems at Japanese banks have been further fuelled by a recent decline in the equity market. Japanese banks have traditionally counted the unrealised gains on their equity holdings – or the difference between book and market value – as part of their banking capital. And in recent years they have started to realise some of these gains to offset provisions for bad loans.

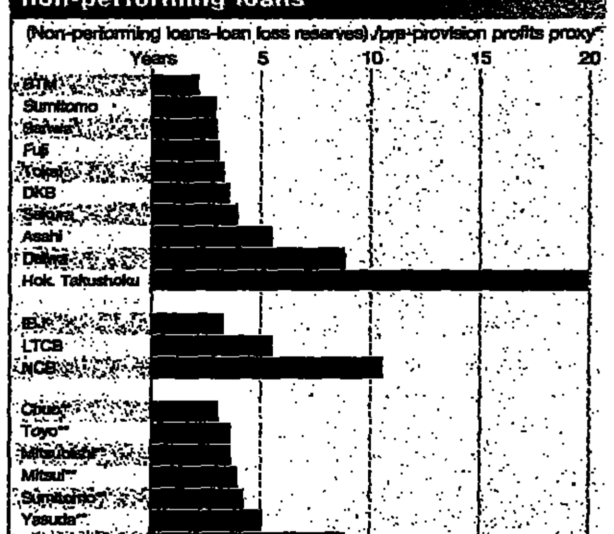
However, the stock market weakened last year, eroding the value of these equity holdings – and giving banks less of a "cushion" against bad loans.

Some officials hope that opening Tokyo's markets could provide a partial solution. The alliance between Bankers Trust and NCB, for example, prompted considerable media speculation in Japan that the US group might be planning to "buy" NCB.

But in practice, the degree of collaboration between the NCB and Bankers Trust remains limited. And opening Japanese markets to foreign rivals is likely to exacerbate the problem, as competition increases the pressures on revenues at Japan's weaker banks.

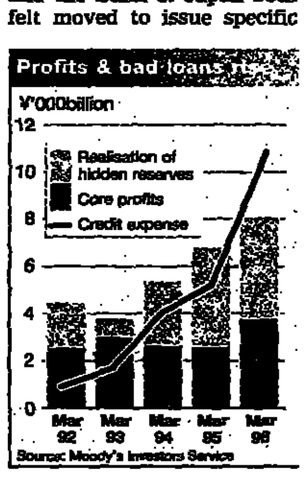
As one senior banking official says: "Until last year, the Japanese banks thought that they could write off their bad loans slowly over the next five or 10 years. But now they have realised that is just not possible – or not if they are going to have to compete with foreign groups soon."

Earn-out years of unreserved non-performing loans



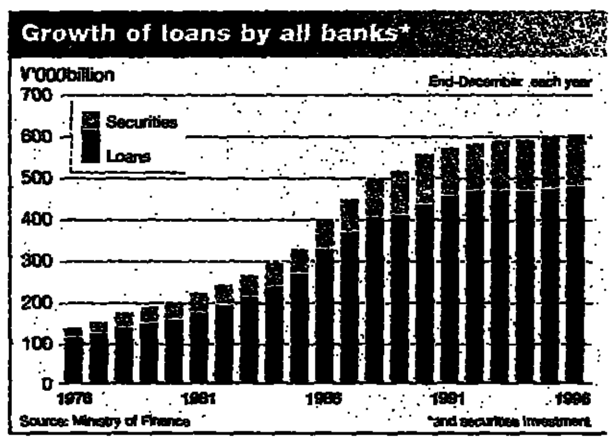
Source: Moody's Investors Service *September 1996 figures **Trust banks

Profits & bad loans



Source: Moody's Investors Service

Growth of loans by all banks*



Source: Ministry of Finance *and securities investment

MALAYSIA • by James Kynge

Banks take the shine off the golden years

The Malaysian sector is ill-equipped to meet its country's investment needs

The phrase "the problems of success" is often employed by Malaysian officials trying to put a positive gloss on shortcomings that have derived, purely and simply, from failure.

But in the case of the country's banking industry, for once the phrase is apposite. Nine uninterrupted years of economic growth at more than 8 per cent have created "can't-lose" conditions for the bankers. At the same time, the good times have masked operational inefficiencies, perpetuated unsophisticated practices and, most importantly, delayed the inevitable consolidation of an overcrowded industry.

The passivity that this phenomenon has bred in some banks has incurred the wrath of Dr Mahathir Mohamad, the prime minister. If Malaysia is to realise its central economic aims of becoming a regional financial centre, a hub for state-of-the-art information technology and an important direct investor in overseas markets, it needs its banks to sharpen up their act.

"Bankers who want to be certain always, who will take no risk at all, will become pure money-lenders. I don't think that you want to be that," Dr Mahathir said in a chiding and now well-known speech to the industry last year.

The infancy of the risk management business provides a clue as to why most are averse to taking the chances inherent in funding overseas investments and extending venture capital to young high-tech companies – both areas the government identifies as paramount.

"Risk management is a new industry. It is just starting," says Mr Ralph Yiehmin Liu, the managing director of Advanced Risk Management Solutions, Singapore-based consultancy.

He adds, however, that interest rate futures, traded on the Malaysian Monetary Exchange (MME), which was set up last year, and interest rate swaps are gaining a gradual acceptance.

Financial institutions have been slow to make use of the stock index futures on the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE), says Mr John Duggan, chief executive officer of the exchange. Here too, though, there are signs of increased interest.

The percentage of general provisioning to total gross loans is also low; it was 1.9 per cent at the end of December 1996, compared with 1.6 per cent at the same time a year ago.

The concern of Malaysia's economic policy makers is not only that many of the country's 23 local banks are ill-equipped to meet the demands of Malaysian companies but also that they might not be able to survive the liberalisation of the industry, expected in the first few years of next century. The earnings of some smaller banks are driven primarily by a straight borrowing and lending business that relies on a wide spread (sometimes more than 2 per cent).

It is significant that the country's top five local banks, Maybank, Bank Bumiputra, Public Bank, AMMB Holdings and DCB Bank, have a combined market share of about 50 per cent. A further 27 per cent share is split between the other 18 local banks; foreign banks have 23 per cent. The

> 'Risk management is a new industry. It is just starting'

smaller banks are unable to achieve economies of scale and often lack the resources for the large investments needed for information technology.

But the country's economic buoyancy, plus an enjoyment of the prestige that comes from owning a bank, have conspired largely to frustrate strenuous efforts by the central bank, Bank Negara, to force mergers. Malaysian banks have a lot of catching up to do if they hope to compete with Singapore's "big four", or other regional powers such as the Bangkok Bank.

There was, however, one significant success. The nation's leading brokerage house, Rashid Hussain, announced plans late last year to create what could become Malaysia's most comprehensive "financial supermarket".

In a deal that betrayed signs of some government orchestration, the brokerage was to acquire the profitable Kwong Yik Bank, a subsidiary of Maybank. Kwong Yik was then to be injected into DCB Holdings, in which Rashid Hussain already had a 20 per cent stake. The resulting group, which will be the second largest financial corporation by profits, will offer a complete range of products including retail banking, merchant banking, leasing, insurance and stockbroking.

The group is expected to be formed around June this year. The company is to be run primarily by Mr Rashid Hussain, who has been the country's most prominent local stockbroker but whose passion is investment banking. He has plans to expand the stockbroking and banking business into the region and support the overseas investments of Malaysian companies, where projects are viable.

With the exception of Rashid Hussain, however, last year was a time of false dawns for the central bank's policy of forcing mergers. Malaysia's largest conglomerate, Sime Darby, initially planned to merge its banking subsidiary, Sime Bank, with Oriental Bank, a subsidiary of Malaysian Industrial Development Finance. But later it said it wanted to wait until Oriental Bank listed on the local bourse before considering whether it would take a stake in the bank.

In February, Pacific Bank announced that it was calling off a proposed merger – proposed eight months earlier – with the Malaysian operations of Singapore's Oversea-Chinese Banking Corp.

While the mergers failed primarily for several internal reasons, it is clear that the pressure on banks to unite is not yet heavy enough to outweigh the perceived advantages of remaining as a separate entity in a booming market. Slowly though, the central bank is getting tougher. In July last year it accorded special advantages to Tier One banks, those that meet specific criteria including having shareholders funds in excess of M$500m. Such banks would be allowed to:

- ■ issue negotiable instruments of deposit (NID) up to five times their capital funds;
- ■ participate in equity derivatives;
- ■ undertake securities borrowing and lending activities subject to the Securities Commission's approval;
- ■ expand their regional operations through the establishment of branch offices, representative offices, subsidiary companies or joint ventures.

These measures are having the effect of further disadvantaging smaller, Tier Two banks. If Malaysia's economy were to turn sour, their vulnerability might drive them into the arms of their bigger competitors.

INDONESIA • by Manuela Saragosa

Governor cracks whip on mergers

Bank Indonesia is trying to promote consolidation in an overcrowded sector

Last November's successful privatisation of state-owned Bank Negara Indonesia may have come as something of a surprise. After all, Indonesia's overcrowded banking sector, with its heavy concentration of bad debts, hardly makes it a showcase industry.

But the success of BNI's initial public offering was in part due to it being held up as an example to other banks of how to improve their management.

Another state bank, Bank Rakyat Indonesia, says it intends to go public in 1999. By that time, if the central bank has its way, the sector may provide a more auspicious background.

The question for Bank Indonesia has been how to encourage consolidation in an overcrowded sector – there are 239 banks saddled with high levels of non-performing loans and increasing exposure to the property sector.

Under Mr Soedradjad Djiwandono, Bank Indonesia's governor, efforts have intensified to provide incentives for banks to merge, in order to ease the central bank's supervisory tasks and improve the sector's health.

Banks are expected to conform to a new capital adequacy ratio – from the current 8 per cent to 9 per cent by September and 12 per cent by 2001 – and a minimum capital requirement of Rp50bn by the end of this banks have a minimum paid-up capital of between Rp25bn and Rp30bn.

"All these banks will have to bring in additional capital," says Mr Parveen Gandhi, corporate financial adviser at Bank Bira, a publicly-listed bank. "I expect major consolidation in 1998-1999."

In addition, Bank Indonesia has introduced several new regulations in the past few months. Credit growth guidelines have been tailored to individual banks compared with the previous broad-brush approach, an offshore borrowing limitation has been set at 30 per cent of equity for short-term instruments, a requirement put in place that small-scale loans account for 20 per cent of a bank's total loan book and unprecedented monetary penalties have been introduced for banks which violate new guidelines.

These measures have been welcomed as pre-emptive but concerns persist that the central bank's overall strategy of "moral suasion" has not been stringent enough. To date, there have been few mergers or liquidations.

"It has been slow," says Mr Soedradjad, "but more and more banks are finally realising that this is the avenue they have to take."

That message was driven home last month when the central bank called a six-hour meeting with all the country's bank directors during which they were warned about loan growth.

Bank Indonesia has reimposed asset growth caps at individual banks with an annual target of 18 per cent for the industry as a whole for 1997, compared with 17 of the country's larger banks, however, the growth targets are about 15 per cent this year compared with 20 per cent last year.

Last year many banks exceeded their targets, which may go some way to explain why many banks have had their targets lowered this year.

"Growth caps are to be seen as a form of moral suasion. There is a 'responsible corporate citizens' theory which holds that banks that meet minimum requirements for small-business lending [and] abstain from intra-group lending are treated preferentially," says a report from Mashill Securities.

Analysts at Jardine Fleming Nusantara, the securities house, take this theory a step further. Asset growth caps will be used as bargaining chips to push the pace of consolidation. "Take over a struggling bank and your earning asset growth can exceed your target," they say in a report. "We believe that the focus on loan growth was to give cover to the central bank's other goal of speeding up consolidation of the industry."

One factor that has prevented commercial banks from rushing into takeovers and acquisitions is the high risk and poor disclosure of Indonesian business. "You won't see consolidation overnight," says Mr Stephan Schmidle, an analyst at Mashill Securities, which works with Dresdner Kleinwort Benson in Jakarta.

Mr Gandhi says Bank Bira started working in technical service agreements with smaller banks last year. Many analysts see this as a poor disclosure. Bank Bira charges fees for its technical know-how, but the objective is to see whether a bank is attractive enough to warrant a takeover or merger.

Mr Soedradjad said Bank Indonesia and the country's Capital Market Supervisory Board, Bapepam, are co-operating to clarify regulations covering the mergers of listed banks. New rulings will be issued soon.

The absence of rules is believed to have prevented last year's attempted mergers between Bank Panin and Bank Lippo, and Bank Tiara and Bank Mashill.

The signs are, however, that concessions from the central bank are increasingly being expected in the industry, especially in cases where Bank Indonesia is looking to divest itself of stakes it holds in troubled banks, such as Bank Pacific and Bank Uppindo.

Mr Soedradjad has had to defend himself against accusations that he was unable to deal thoroughly with these banks because of their well-connected ownerships. Bank Pacific, for example, is controlled by the family of the former president of the state oil and gas company, Pertamina.

The outcome will be seen as setting a precedent for the sector.

Businessman Mr Aburizal Bakrie and Ms Siti Hedianti Prabowo, President Suharto's second daughter, have expressed interest in forming a consortium to take over Bank Pacific but it is still unclear whether this will go ahead.

"I don't want this issue to linger on," says Mr Soedradjad. "It's damaging for the whole of the banking industry. If they ask us to chip in for example, we want to know how and in what form. We are doing this on a case-by-case basis."

INDIA • by Tony Tassell

Politics upsets foreign inflow

Long-term growth is expected despite the recent parliamentary blow to sentiment

Bombay Stock Exchange: foreign investors pumped more than $4.3bn into Indian equities last year

When Reliance Industries, the Indian petrochemicals group, launched a 100-year bond issue this year more than a few heads were turned in Asian financial circles.

The deal to raise $100m was the first century bond issue by an Asian private sector company outside Japan. The fact it was achieved by an Indian company surprised many but reflected both a growing appetite for securities from the subcontinent and the increasing sophistication of their issuers.

Most analysts expect these trends to continue in the long term in spite of a recent setback to the market from political turmoil in India following the fall of Mr H.D. Deve Gowda as prime minister and his replacement by Mr Inder Kumar Gujral.

Until then prospects had been brightening for the Indian market in spite of poor conditions last year, which saw the BSE 30 Index hit a three-year low in early December.

Foreign investors pumped more than $4.3bn into Indian equities last year in one of the strongest yearly investment inflows since economic liberalisation began in the country in the early 1990s.

Of this more than $3bn went directly to domestically-listed Indian paper, while $1.3bn was invested in global depositary receipt issues during the year, including a $370m offering by the State Bank of India, the flagship of Indian banking.

This year the inflows continued to be strong amid expectations of a rebound in corporate earnings in the fiscal year to March 1998.

Most stockbroking firms have forecast a 25 per cent to 30 per cent rise in corporate earnings after a slowdown in growth in 1996-97.

There was also strong interest in several bond issues by Indian companies.

Reliance carried out its century bond issue in January and Indian Petrochemicals Corp, the state-controlled petrochemicals producer, made an innovative $150m convertible bond issue in February which used a bank guarantee to obtain a higher credit rating than the sovereign ceiling for India.

Foreign sentiment was lifted further by an aggressively tax-cutting budget on February 28. The budget revived confidence in the pace of economic reform under the United Front coalition government led by Mr Gowda. Already bullish forecasts for corporate earnings growth in 1997-98 were raised.

In the wake of the budget, Videsh Sanchar Nigam, India's sole provider of international telecoms, carried out the country's biggest global depository receipt issue when it raised $528m.

The issue was heavily oversubscribed, with gross commitments of more than $5bn. Investment bankers described the quality of investors taking up shares in the issue as the best seen for any Indian GDR issue.

Much of the unfulfilled demand was expected to have flowed over into the domestic market. Politics intervened then, with the Congress Party withdrawing support for the United Front coalition government while Mr Gowda remained its leader.

The turmoil largely suspended inflows in April as foreign investors took a wait-and-see approach.

"The market had just started to look as if it was going places, when all this came along," one Bombay broker said.

Analysts say investor sentiment will be critically affected by whether the budget planned by the previous administration is passed as promised by Mr Gujral.

Mr Todd St Sure, of brokers Peregrine India, says foreign investors are likely to wait in the short term to assess the stability and reform intentions of the new coalition government headed by Mr Gujral.

In the longer term, he says, there is still strong interest from foreign investors in the Indian market.

The Indian debt market, particularly, is set to attract strong investment from foreign institutions in the year ahead.

In late 1996-97 , the Securities and Exchange Board of India, the market regulator, approved foreign debt market funds worth $1.178bn to invest in the country. SEBI officials said funds granted approval were from Chescor ($50m), Credit Suise Asset Management ($3m), J Henry Schroder ($150m), HSBC Asset Management ($100m), Peregrine Capital ($100m), Citicorp Investment Banking Singapore ($50m), Guiness Mahone ($175m), Buchanan Capital Management ($200m) and UBS ($350m).

Private equity and venture capital investment is also likely to increase in the year ahead. According to the Asia Pacific Private Equity Bulletin more than $1.3bn has been committed to private equity and venture capital funds dedicated to India. Industry observers suggest another $400m was being lined up before the political upheaval.

PROFILE Kotak Mahindra

Brightest of a new generation

Uday Kotak: 'It has been a pheneomenal decade'

A new generation of bright, urbane financiers and brokers has emerged during the development of the Indian financial market in the past 10 years.

Few have matched the impact of Mr Uday Kotak, vice-chairman of Kotak Mahindra financial services group.

The group was co-founded in 1985 by Mr Kotak, then in his mid-20s, with the backing of Mr Anand Mahindra, of the Mahindra tractors-to-technology group.

From an initial investment of just under $100,000 and a staff of three, Kotak Mahindra has grown to be a leader in Indian financial services, with net worth of about $200m, 26 branches across the country and more than 800 employees.

The group's operations include investment banking, car finance, asset management, stockbroking, debt trading and leasing.

Kotak Mahindra also holds stakes in a commercial bank, the Bank of Madura, the Business Standard newspaper – with which the Financial Times has an affiliation – an entertainment company headed by Mr Amitabh Bachchan, the Indian film star, and a telecoms consortium headed by Shinwatra of Thailand to provide cellular services in Gujarat state.

Its reputation was strengthened when the conservative US investment bank Goldman Sachs broke with tradition and formed its first joint venture around the world with Kotak Mahindra. After three years of "dating" Goldman Sachs bought a 25 per cent stake in the group's stockbroking arm and a 28 per cent holding in its investment banking operation.

The group has formed two joint ventures with Ford Motor to provide car finance in India.

"It has been a phenomenal decade," says the Bombay-born and educated Mr Kotak.

The growth of Kotak Mahindra and other domestic financial houses such as DSP Financial Consultants and JM Financial has both mirrored and helped promote the development of the Indian financial market.

Mr Kotak says that when he entered the market in 1985 it was not considered the "right kind of business to be in". He adds: "People used to ask me: 'What kind of industry is this?' There was not really a concept of financial services as an industry."

Mr Kotak says the initial break for the group came after it spotted a gap in the market to arrange and trade "discounted bills" – short-term finance for companies. The group helped to create a market for discounted bills in India.

"At the time, the Indian financial market was very imperfect," he says. "The state-owned public sector banks had 99 per cent of the market for providing short-term finance. These banks often provided poor service.

"We felt there was a great opportunity for an intermediary to get in and take advantages of the imperfections in the market.

"We also started from a concept to provide better service. We would say that we would arrange finance for a company within two hours."

From this base, Kotak Mahindra became one the first non-bank finance companies to expand into equipment leasing and car finance, two markets which grew rapidly over the next decade.

The group then leveraged its growing brand and distribution to enter the capital markets and in 1991 bought India's biggest retail broking distribution company Ficom.

"As we started making money in one business, we used the cashflow to expand into another," Mr Kotak says.

The one-time keen cricketer and sitar player says that Kotak Mahindra plans to continue to "accelerate" its presence in the financial services over the next two to three years.

The group has linked with Chubb, the US group, to provide general insurance. It will also consider entering the life assurance market if it is opened up to private sector competition.

Mr Kotak says the group's focus on India should give it a competitive strength.

"The India story is going to happen over the next few years but at its own speed. The people who are going to benefit out of India in the industry are those that take a long-term commitment to it," he says.

"Unlike like a lot of other players, India is the only market for us."

Mr Kotak adds that consolidation of the Indian financial services market is looming and should benefit larger participants such as Kotak Mahindra.

Tony Tassell

SOUTH KOREA • by John Burton

'A puddle to fight a big fire'

The government's rescue package for the country's debt-laden banks has its detractors

Several big corporate bankruptcies this year have shaken the South Korean banking industry and spurred efforts to reform a system plagued by non-performing loans.

The collapse of the Hanbo and Sammi steel groups and the near-bankruptcy of the Jinro liquor group, as well as other problems surrounding some of the country's top 30 conglomerates, have exposed serious weaknesses in Korea's banking and industrial sectors.

The banks, under government influence, have financed a rapid expansion of Korean industry during the past decade as groups have diversified into a number of new business operations. But an economic slowdown and sluggish exports mean the conglomerates, or chaebol, are having difficulties now in servicing their huge debts.

The collapse of Hanbo and Sammi and a record amount of bankruptcies among small and medium-sized companies are threatening the survival of Korea's six biggest and oldest banks, which include Korea First Bank, Commercial Bank of Korea, Cho Hung Bank, SeoulBank, Korea Exchange Bank and Hanil Bank.

Korean banks have already seen their overseas borrowing rates rise along with the increase in their non-performing loans, with some threatening to become technically insolvent.

A presidential commission on financial reform recently estimated that the six main banks have total non-performing loans of Won23,000bn, or 14.3 per cent of all outstanding credit, based on US accounting standards. The finance ministry officially estimates non-performing loans for all 25 national and regional commercial banks at half that amount.

There is a danger of more bad loans if the economy remains weak. An analysis by Schroders Securities in Seoul has revealed that the main corporate customers of the six leading banks have an average debt/equity ratio of 440 per cent, twice the level that is regarded as prudent.

Moreover, many of the banks are not profitable. Having grown dependent on equities investments to improve earnings, they have suffered from a sharp fall in the performance of the Seoul bourse in the last two years.

Although most continue to report nominal profits, this is only because the government has allowed them to hide most of their equities losses through accounting changes.

With a banking crisis looming, the government is studying ways to avoid a collapse of the overstretched system.

One option is to promote mergers, which could lead to cost savings as overstaffed bank networks are combined and jobs cut.

But Korea's strict laws governing redundancies make it difficult to achieve cost benefits from bank consolidation.

In addition, the strong sense of corporate identity in Korea means merged banking groups might not run smoothly. SeoulBank, which was the result of a merger 25 years ago, is still experiencing management conflicts.

Analysts also see little chance of mergers reducing problem loans. "It will only magnify the bad loan problem by combining troubled banks," says Mr Adrian Cowell with Dresdner Kleinwort Benson in Seoul.

Another possible solution is allowing the largest industrial groups to take over ownership of the banks. The chaebol could recapitalise the banks, while providing them with much-needed management skills, such as improved credit risk analysis.

But this carries the danger that the chaebol would monopolise future bank lending at the expense of small businesses. Moreover, chaebol ownership of banks would be politically unpopular since the conglomerates are already criticised for having too much economic power.

Instead, the government appears to favour a state rescue package for the banks. The finance ministry recently announced that a state agency, the Korea Asset Management Corporation (KAMC), will take over troubled assets from the banks and sell them in an effort to clean up balance sheets.

A similar system has been used in the US, Japan and Sweden to help save banks that had become over-exposed as a result of a collapse in property markets.

The KAMC will set up a Won1,500bn fund, financed by bank contributions, bond issues and overseas borrowing, to buy bad loans at a discount from the banks during the next five years.

It will also collect commissions from the banks for disposing of the property that serves as collateral for an estimated 80 per cent of the bad loans. The agency will advise troubled corporate borrowers on selling assets to pay off their debts.

But the proposal has its critics. "The solution is intelligent, but its execution is faulty because the bail-out fund is too small," says Mr Henry Morris, a director with Coryo Securities. "It's like fighting a big fire with a puddle of water."

Moreover, the bail-out fund is linked to a recent plan by the banks to rescue big troubled companies by providing new loans even if they default on old ones. Emergency loans, for example, were recently provided to Jinro to prevent its collapse.

The banks say they cannot afford any more large bankruptcies this year, but analysts believe postponing the day of reckoning for uncompetitive businesses will be less than prudent.

"It's understandable that the banks are trying to stabilise the situation. They are trying to avoid creating a credit crunch that could result in more bankruptcies than are necessary, but the banks are also exposing themselves to the danger of throwing good money after bad," says Mr John Wadle, Asian banking analyst for JP Morgan Securities in Hong Kong.

"With the government creating a new safety net [for the banks with KAMC], there is little incentive for the banks to stop lending to failing businesses. It will delay a needed restructuring of industry," says one foreign banker.

Average debt/equity ratio for corporate customers of the six main Korean banks

Bank	%
[illegible]	[illegible]
Korea Exchange Bank	449
[illegible]	[illegible]
Korea First Bank	397
Hanil Bank	317

Source: Schroders Securities, Korea Stock Exchange

Total corporate debts in South Korea

Year	Won bn
1995	539,000
[illegible]	[illegible]
1993	447,000
[illegible]	[illegible]
1991	328,000
[illegible]	[illegible]

Source: South Korean central bank

Bangkok: from June this year individual banks will have to reveal their non-performing loan levels twice a year Picture: Sarah Murray

THAILAND • by Ted Bardacke

Prop for banking sector

Recent moves by the authorities have reduced the risk of a systematic crash

The good news about the Thai banking system is that it is not on the verge of collapse, in spite of turmoil in the country's economy and in financial markets.

Recent moves by Thai financial authorities have significantly reduced the risk of a systematic crash in the country's financial system. Commercial banks will be required to make provisions for 100 per cent of non-performing loans and 15 per cent of doubtful loans, giving the institutions a cushion to deal with the rising level of non-performing debt and the inevitable write-offs that will result.

The government is also sponsoring a bail-out worth up to $4bn for the country's ailing property developers. The scheme does not attack the root of the oversupply problem plagueing the sector, but it will give financial institutions which lent to the sector a five-year window in which to restructure their property lending and remove non-performing loans from their books.

The central bank is also pushing hard for a consolidation in the country's finance sector, looking to eliminate most of the finance companies through mergers and upgrade them into commercial banks. If this plan works it should reduce the indirect exposure of commercial banks – through lending to the finance sector and cross-shareholdings – to volatile areas such as hire-purchase and margin lending for stock speculation.

All this should have been done earlier, when Thai banks were some of the most profitable in the world, not when crisis loomed. Both regulators and bankers were negligent, says Mr Russell Kopp, head of research at Kleinwort Benson in Bangkok.

"Thailand has been far less proactive [than other south-east Asian countries] in imposing a plausible vision for its banking industry, appearing to rely rather on the same naive optimism with which it has approached its traffic problems for the past decade," Mr Kopp adds.

At the same time, during the boom era of the early nineties bankers "failed to strengthen balance sheets, address areas of inefficiency, diversify earnings streams, or prepare in any meaningful way for the inevitable rainy day," he says.

One foreign consultant to a well-regarded mid-size Thai bank tells of being brought in to assess the bank's risk to a devaluation of the Thai baht. He discovered that the bank had no system for evaluating credit risk exposure, either to specific industries or to factors such as interest rate fluctuations or changing international capital flows.

About the only comprehensive policy implemented in the early nineties was the introduction of the Bangkok international banking facility (BIBF), which allowed Thai and foreign banks to set up offshore operations in the country for foreign currency lending to Thai and international corporations.

The plan backfired. Instead of turning Bangkok into a centre for offshore lending to the emerging economies of Indochina it was a vehicle for Thai companies to become massively indebted in cheap foreign currency, often proffered by Japanese banks which saw lending volume as a way to secure a full commercial banking licence.

The Thai government continues to be prudent about its foreign debt exposure but with the introduction of BIBF external debt as a percentage of GDP grew to 50 per cent and much of this money was invested in projects that would have become profitable only if the Thai economy continued its near double digit rate of economic growth.

Some Thai banks were also in the habit of inflating their margins by borrowing overseas and on-lending to their clients in baht. Now for all but the largest Thai banks, particularly Bangkok Bank and Thai Farmers Bank, foreign funding has become prohibitively expensive – if available.

Fortunately banks are receiving unexpected assistance in weaning themselves from foreign borrowings. A run on finance company deposits has resulted in a surge in local currency deposits, mostly to mid-size banks.

But local deposits are still expensive to raise and with anaemic loan growth – banks are currently bursting with liquidity but are afraid to lend – this change in funding structure is unlikely to translate to higher profits.

Unless interest rates soon come down significantly – an unlikely prospect given the need to defend the baht against speculators and maintain a balance of payments surplus to fund the country's current account deficit – profits will be hit by a series of factors for several years

Loan-loss provisions will increase as non-performing loans continue to grow. Standard & Poor's, the US credit rating agency, believes non-performing loans in the commercial banking sector will peak at between 12 per cent and 15 per cent of loans by the end of next year, compared with a June 1996 official figure of 7.7 per cent.

From June this year individual banks will have to reveal their non-performing loan levels twice a year, but many analysts believe those figures will be disguised with a roll-over of bad debt and other accounting tricks.

Write-offs will also start to take their toll. ING Barings estimates that because of write-offs and other factors, the ratio of net asset value to book value of some small and medium-size banks is reaching parity.

This will be aggravated by an expected fall in collateral values as banks repossess property and then are forced to auction it off.

PHILIPPINES • by Justin Marozzi

Steering a steady ship

A number of ripples have disturbed the calm surface of the banking sector

Commercial banks in the Philippines

Total assets	1991	1992	1993	1994	1995	1996*
Total assets (pesos bn)	552	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Growth rate (%)	—	12.3	22.4	23.6	29.9	33.7
Total loan growth						
Total loans (pesos bn)	254	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Growth rate (%)	—	17.7	35.4	26.5	43.3	41.9
Real GDP (% change)	-0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* Forecast

Source: SGV Financial Studies; Moody's; For 1996 Bangko Sentral Ng Pilipinas

With 51 licensed commercial banks and more than 800 rural credit institutions, it would be difficult to argue that the Philippines was under-banked.

The proliferation of banks has, however, come at a cost. They are small.

In a recent survey of 50 Asean banks, ranked by assets, Metropolitan & Trust Corp (Metrobank), the biggest Philippine bank, came a lowly 25th, with $6.7bn, – less than one-sixth of the $41.3bn of Thailand's Bangkok Bank. The top 10 Philippine banks combined account for less than this.

Amid the steady progress achieved by Mr Gabriel Singson, governor of the Philippine central bank – including higher capital requirements and lower reserve requirements – a number of ripples have recently disturbed the calm surface of the banking sector.

In March, Victorias Milling, the country's principal sugar miller, announced that it was unable to pay debts of 4.4bn pesos (£103m). The effects are still being felt by its 32 creditors – mostly banks.

Concerns that the booming high-end property sector is headed for a downturn have intensified with rumours of financial difficulties at Megaworld, the local property group.

Some analysts question the central bank's official figure for bank exposure to the property sector at about 10 per cent, and believe the figure may be as high as 21 per cent. The central bank said recently it was starting another study of banks' property sector exposure.

Fears of a Thailand-style collapse in the financial sector have emerged, fed by an HG Asia report which drew a parallel between the banking sectors of the two countries.

Rising foreign currency borrowings – growing at 140 per cent a year – and a widening trade deficit, are causing concern.

Ratios of loans to deposits are stretched to their limits. The average ratio stands at a fearful 103 per cent for local commercial banks, with a high of 135 per cent. Domestic savings levels are chronically low at 20.5 per cent of gross national product (GNP), compared with the rangew of 35 per cent to 40 per cent typical in the region.

The 1994 law authorising 10 foreign banks – including Tokyo Bank and Fuji Bank of Japan, ING of the Netherlands and Germany's Deutsche Bank – to establish branches in the Philippines brought largely unfulfilled predictions of consolidation.

In December, in a move to encourage consolidation, the central bank increased the minimum capital requirement for commercial banks and universal banks to 4.5bn pesos within two years . "We would like bigger banks because bigger banks are stronger banks," says Mr Singson.

On the day that decision was unveiled Asian Bank and PDCP announced a merger to create the seventeenth largest bank with assets of 28bn pesos.

The deal followed October's merger between the Bank of the Philippine Islands and CityTrust, the third and seventh largest banks respectively in the Philippines, lifting BPI's assets from 154bn pesos to 190bn pesos.

Mr Angelito Villanueva, senior vice-president of Metrobank, sees the central bank's move as a modest but essential step in the right direction.

"The only real muscle in banking terms is capital," he says. "Increasing it until we are on a par with regional and then international banks is the only way to compete in a global market," Mr Villanneva adds.

No one doubts that smaller banks whose capital base falls below the new required minimum levels will be forced to merge, be acquired, attract new – possibly foreign – shareholders, or cease trading.

Among the actively traded ... (2.65bn pesos), Urban Bank (2.55bn pesos) and Security Bank (3.97bn pesos) are considered likely candidates for merger or acquisition. Informal estimates suggest the number of local commercial banks – excluding the 14 foreign licensed banks – will shrink by about half from 38. No rapid progress, is expected, however.

"The smallest banks may never be ideal candidates for acquisition by larger banks because they have little to offer," says Mr Brian Fredrick, chief executive of HongkongBank in Manila. "Besides, merging small, weak banks doesn't necessarily give you a large strong one."

The lifting of capital requirements came after the central bank reduced reserve requirements – which banks must deposit with it in low-interest accounts – from 15 per cent to 13 per cent, in another move designed to strengthen the banking sector.

Although the figure still compares unfavourably with regional neighbours, Mr Singson says he hopes to reach single digits well before the end of the century.

Significant obstacles lie ahead, not least the "directed credit" restrictions which force banks to lend 40 per cent of their loan portfolios to agricultural enterprises and small businesses.

Bankers say this largely accounts for high intermediation costs and domestic costs of borrowing.

Further reforms are required before banks can flex their muscles more freely and compete on a regional level, but most bankers would ...

HONG KONG • by John Ridding

Two-way traffic is under way

Success at home will underpin moves by the banks to expand on the mainland

Significant shifts are under way in the Hong Kong banking market, the most profitable in the region.

Managements warn of rising competition. Consumers are snapping up cheaper funds while sector analysts point to a new phase in strategy as banks fight for retail business and funnel liquidity towards loans.

The upheavals have little to do with broader issues facing Hong Kong as it counts the days to its return to Chinese sovereignty. But the various forces, and the banks' response, will determine whether the industry remains a pillar of the economy beyond the transition.

Success at home will underpin moves by the territory's banks to expand to the mainland, further deepening cross-border business integration.

In spite of warnings from chairmen and chief executives, the territory's banks are in strong shape to sustain their profitable performance. The latest results season revealed double-digit increases for most banks, as they shrugged off intensifying competition for mortgage rates and more aggressive pricing for personal loans.

Bank of East Asia set the ball rolling with a 15 per cent rise in net profits for 1996 to HK$1.88bn (£150m). Dah Sing brought results to a close with a 26.5 per cent increase to HK$602.6m. In between, HSBC Holdings and Standard Chartered revealed strong returns from the territory, confirming its credentials as a lucrative market.

Part of the reason for the improvement has been an increase in loan demands on the back of economic recovery. But there are deeper factors at work. According to Mr Andrew Brown, head of Salomon Bros Asia Pacific financial institutions research, "virtually every bank in Hong Kong has been shifting the mix of interest earning assets toward loans over the past three years".

This shift partly reflects the improvement in interbank market liquidity in the past four to five years and the introduction of the liquidity adjustment facility – essentially a repurchase arrangement with the Hong Kong Monetary Authority.

As a result banks have been able to shift excess liquidity to loan growth. One result has been increased competition for market share, hence the pressure on pricing.

But the negative effects have been offset by improved yields on interest-bearing assets and reduced pressure on funding costs, since loan growth is partly funded by the use of maturing liquid assets.

The benefits of this structural shift have enabled banks to shrug off the effects of competition. This has seen mortgage rates fall to some 50 basis points above prime – often just 25 points for preferred customers – and growing rivalry in other business areas, from credit cards to personal loans.

Many in the industry believe that the "price war" in the mortgage market is abating. "The market seems to have stabilised a bit", says Mr Simon Penney, chief financial officer of Hongkong Bank. "Though the days when the standard rate was 1.75 per cent above base lending rate, sadly, are history."

Mortgage growth, however, may also be cooling. A rise in local interest rates at the end of March, after the move by the US Federal Reserve, was followed by a series of government steps to cool the overheated housing market.

Mr Daniel Wan, deputy general manager of the Bank of East Asia, said that mortgage applications had slowed in April after a first quarter year on year increase of 20 per cent in lending.

Few expect a significant reversal, however. Mortgage lending follows applications with a three-month lag and the property sector remains robust. Mr Brown at Salomon Bros plays down the impact of interest rate rises, saying that most banks' interest earning assets are on floating rates and contributions from free funds will increase. Mr Wan at the Bank of East Asia says the bank should be able to sustain interest margins at about three percentage points, even if there is a further rate rise.

Bank of East Asia has been among the spearhead of the territory's financial institutions seeking to expand on the mainland. With the opening of its Tianjin representative office last year, it now has 11 branches and offices in China.

Hongkong Bank started local currency operations in Shanghai in March, for the first time for more than four decades, following approval of a licence. Many other local banks are seeking to develop outlets across the border in Guangdong province and beyond.

Progress has been steady, not spectacular, partly because of the caution of mainland authorities concerning deregulation of its frail financial sector. Consequently, business opportunities remain limited, although there are profitable niches for trade finance and fee-based services.

"The motivation is clearly longer-term", says the chief executive of one Hong Kong bank. "But we are beginning to see a lot more of positioning by local and foreign players." Loans to companies involved in China have seen much stronger growth, with external liabilities of Hong Kong banks to the mainland rising by more than 40 per cent per annum since 1980.

The traffic is two-way. The Bank of China and its 20-odd sister companies have expanded their presence in Hong Kong, and the group as a whole vies with Hongkong Bank for market leadership. "They are strong competitors," says Mr Vincent Cheng, executive director of the regional arm of the HSBC Group. "But there are also areas, such as loan syndications, where we co-operate."

Mr Cheng dismisses the idea that the playing field in Hong Kong will become skewed by political pressures after the transfer of sovereignty. "We have a lot of exchanges and visits with the Chinese government and they always behave very honourably," he says. "They never tell us what to do or ask for any favours."

In his view, the rewards of the mainland market and business from across the border far outweigh the hazards of the handover. "China provides us with far greater opportunities than risks."

Hong Kong: banks are counting the days to the handover

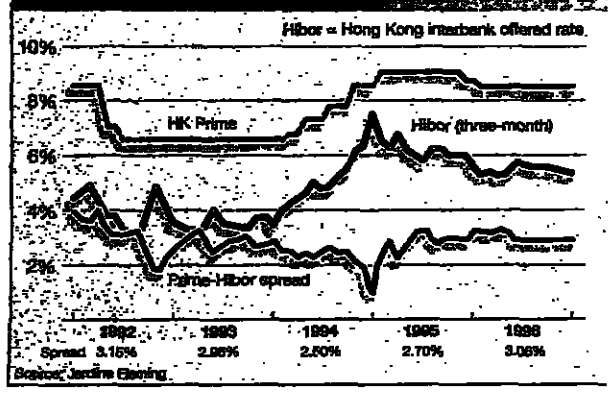
Net interest margin

Average loans as a percentage of average earning assets

	1993	1994	1995	1996
Hang Seng	36.4	39.5	43.3	45.9
Wing Lung	45.3	48.7	48.0	51.3
Dao Heng*	n/a	53.9	55.1	53.2
HSBC	56.3	57.5	57.2	57.8
Bank of East Asia	52.4	53.7	57.7	59.0
Wing Hang	59.0	61.7	62.9	64.2
FPB Bank	[illegible]	61.5	62.7	65.6
Dah Sing	58.2	61.6	63.1	66.7

* Dao Heng figures are for 5 month interim period ending June 30 1996.
Source: Salomon Brothers estimates and company reports

Prime-Hibor spread



Source: Jardine Fleming

PROFILE **Peregrine**

'Pain in the neck' wins respect of its rivals

Peregrine, says a banker at one of the most aggressive US houses, is "a right pain in the neck".

The thrusting pan-Asian investment bank may not yet be a decade old but it has certainly ruffled more than a few feathers.

By first making huge capital out of its impressive connections – namely tycoons with big ticket projects in the territory and China – and then diversifying into largely untapped markets, it has sought to stay at the forefront of the international pack.

Its latest re-invention has seen the company move heavily into fixed income, focusing on corporate debt from Thailand, Malaysia and Indonesia.

This has seen it march into the traditional product stomping ground of renowned US bond houses such as Salomon Brothers and Lehman Brothers, from where it poached staff for what is now a 204-strong fixed income team.

At the same time, a wary eye has been kept on future trends in the industry and the pitfalls – which a number of Peregrine's European peers have arguably fallen into – have been broadly avoided.

Proprietary trading, a strength of the US giants, is now a firm part of Peregrine's armoury and equities business is increasingly derivatives-led.

"The days of simply being able to take an order to buy 1m HSBC Holdings shares and make money on that are rapidly disappearing. The pure agency business is changing," says Mr Philip Tose, chairman of Peregrine.

Combining a regional franchise with a broad church of investment banking (including more recent additions such as fund management) has won Peregrine the grudging admiration of its competitors – and its share of followers.

"The things they've done right is focus on their strength, which is Hong Kong and China, and tried to dabble elsewhere in the region, keeping their tentacles broad, and I think that's a very successful strategy," says Mr Mark Hantho, managing director at Morgan Stanley Asia.

That strategy was arguably forced upon Peregrine when the deep-pocketed US investment – and, to a lesser extent, European – banks started challenging Peregrine on its own turf. But Peregrine's advantage was its foresight: its revamp pre-empted the onslaught of competition for China business.

Moreover, Mr Tose says the company has always fought fair and square for the business of its backers, who include tycoons such as Mr Li Ka-shing, Mr Gordon Wu of Hopewell Holdings and Mr Larry Yung of Citic Pacific, the Hong Kong-listed arm of China's main investment vehicle.

"We would never dream of assuming we have the right to their business. We have to compete for that business along with everyone else. If Mr Li thinks we are doing a lousy job, he won't give us his business," says Mr Tose.

Today, names such as Morgan Stanley Asia, HSBC Investment Banking and Jardine Fleming (which last October took a 30 per cent stake in the financial services arm of the more China-oriented Goodwill Investment Holdings) regularly appear on tombstones displaying details of capital-raising exercises by redchips and other Hong Kong companies with strong China ties.

"I think Pererine are threatened in their home market," says one rival.

Much of this competition, however, is concentrated in the equities business: the Asian corporate debt market on to which Peregrine has latched has been mostly shunned by its peers, who in their turn prefer to stick with rated debt issues from Hong Kong.

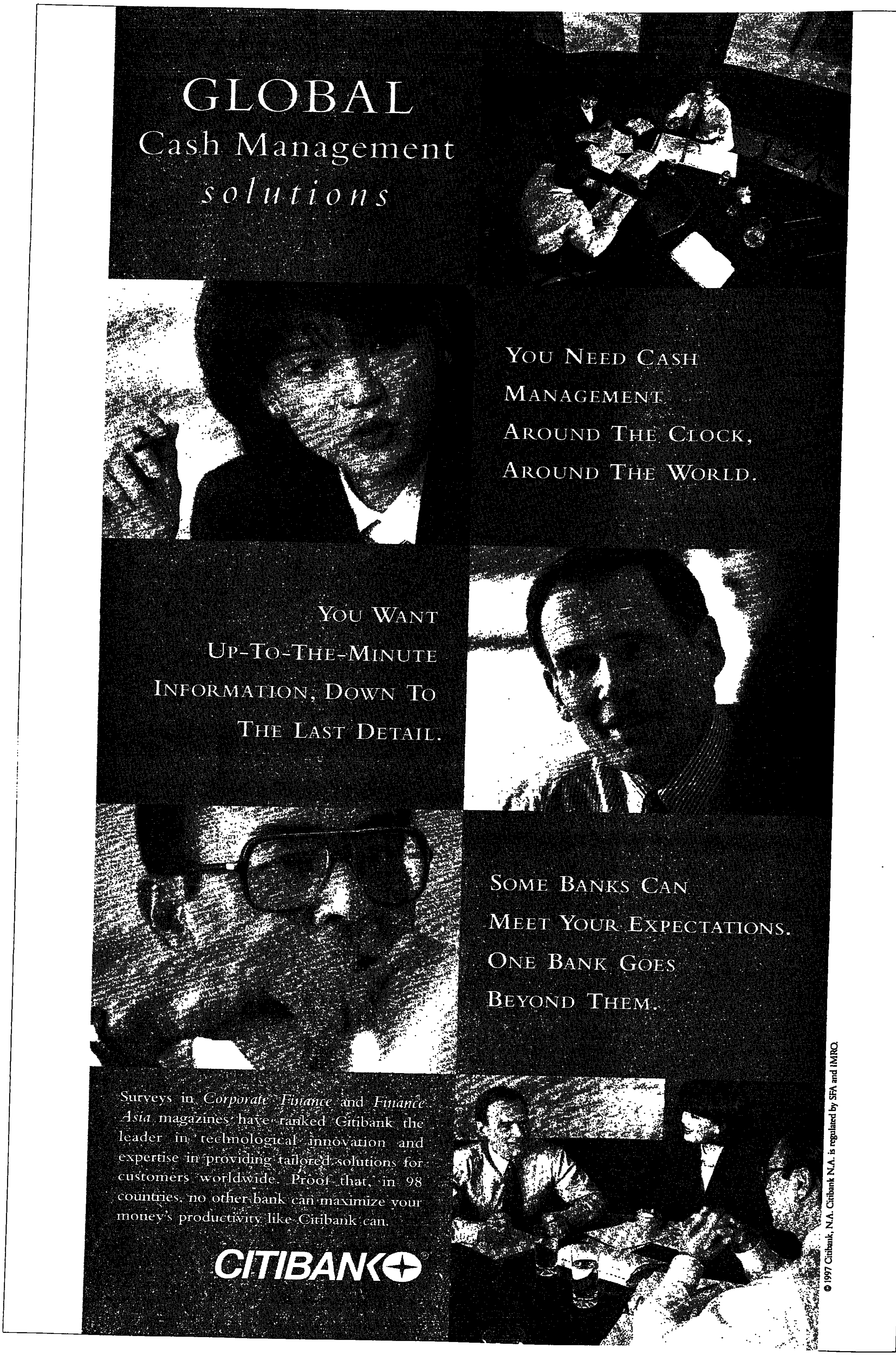
On top of competition at home, troubles loom in the foreign reaches of Peregrine's terrain. In Vietnam, Burma and Bangladesh there have been problems stemming from either the chosen partner or zealous authorities.

Today, a wiser Mr Tose, having shut down shop in Burma, says: "We are going to continue to look closely and hard at activities. If there's one criticism to be levelled at us over the past two years it is that we have ventured into some areas where in hindsight we probably now rather regret it. Clearly there are some areas where, yes, we would have done it very differently."

Other bankers would quibble with the "one criticism". Broadening the product portfolio brings it's own problems, they say. "They're getting stretched," says one investment banker. "Philip Tose and Francis Leung, managing director, are trying to build a strong bench below that but it's difficult as most things are still done by those two."

Employees insist they prefer to work within the flat management structure, and uphold the company line that a strong tier of management is evolving under the Tose/Leung axis. Even so, the grip of the two founding kingpins can be tough for the egos working in investment banks.

Louise Lucas


GLOBAL
Cash Management
solutions
YOU NEED CASH MANAGEMENT AROUND THE CLOCK, AROUND THE WORLD.
YOU WANT UP-TO-THE-MINUTE INFORMATION, DOWN TO THE LAST DETAIL.
SOME BANKS CAN MEET YOUR EXPECTATIONS. ONE BANK GOES BEYOND THEM.
Surveys in Corporate Finance and Finance Asia magazines have ranked Citibank the leader in technological innovation and expertise in providing tailored solutions for customers worldwide. Proof that, in 98 countries, no other bank can maximize your money's productivity like Citibank can.
CITIBANK
© 1997 Citibank, N.A. Citibank N.A. is regulated by SFA and IMRO.

FINANCIAL TIMES
COMPANIES & MARKETS
Friday May 9 1997
Week 19

IN BRIEF

Profits collapse at Donna Karan

Donna Karan, the New York fashion house, is finalising plans for a wide-ranging cost cutting programme following the news of a collapse in first quarter profits to $806,000 from $6.2m in 1996. Page 26; Lex Page 20

Sallie Mae try to stop rebel directors
Senior executives of the US's Student Loan Marketing Association, popularly known as Sallie Mae, were meeting shareholders to try to stop a rebel group of directors from gaining control of the financial institution's future. Page 26

News Corp up sharply in third quarter
News Corp, Rupert Murdoch's media and entertainment group, surprised analysts by posting sharply improved third-quarter profits of A$426m (US$330m) before tax and abnormal items. In the same period a year ago, News Corp made A$299m. Page 24

IBM gains control of Advantis
International Business Machines moved to make Advantis, its US data networking services joint venture with Sears Roebuck, a wholly owned division by acquiring Sears' 30 per cent stake for $450m. Page 26

Copaxone drug helps Teva rise 68%
Teva, Israel's largest pharmaceuticals company, reported a 68 per cent rise in profits for the first quarter. It attributed the surge to exports, recent acquisitions and the success of Copaxone, its multiple sclerosis drug. Page 23

Thai Danu to take over Finance One
Finance One, the Thai finance company which was to have been rescued through a merger with Thai Danu Bank, will be acquired outright by Thai Danu in an attempt to end the conflict over the valuation of Finance One. Page 24

Body Shop may float Japan interests
Body Shop International blamed difficulties in France for a dip in annual pre-tax profits. It emerged that the green retailer's Japanese interests are likely to be floated off before the millennium. The move would not benefit the UK company financially. Page 27

HK Telecom net profits up 12.5%
Hongkong Telecom, the territory's dominant carrier, reported a 12.5 per cent increase in net *profits to HK$11.18bn (US$1.44bn) as the share* price hit a year high amid speculation about a change in ownership. Page 25, Observer Page 19

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

NEW YORK ($)			
Rises			
Boston Tech	23⅝	+	2⅝
Exel Ltd	42½	+	2⅞
US Airways	34⅛	+	2¾
Falls			
Allwaste	8	–	1
Amer Residntl	21⅝	–	2⅝
Philip Envir	13⅞	–	2
LONDON (Pence)			
Rises			
Allnce & Leic	626½	+	41
MEPC	493	+	18½
Silentnight	327½	+	30
Falls			
BTR	231	–	36½
MMT Computing	504	–	68½
Pan Andean	34½	–	14
TORONTO (C$)			
Rises			
Asbestos Corp	18.85	+	1.85
Cameco Corp	55.0	+	4.0
Ecoo Tech	3.9	+	0.8
Falls			
Tee Comm Elec	1.05	–	1.0
Paragon Ent	2.2	–	0.3
Philp Envir	18.25	–	3.35

TOKYO (Yen)			
Rises			
Daiei Inc	894	+	42
Konica	790	+	30
NTN	862	+	30
Falls			
Iwatsu Elec	361	–	14
Kaneka	684	–	18
Yamaichi Secs	352	–	13
HONG KONG (HK$)			
Rises			
HK Telecom	15.0	+	0.8
HSBC Hldgs	210.0	+	3.0
New Wrld Dev	48.9	+	1.2
Falls			
New Wrld Infr	23.1	–	0.65
TV Broadcast	32.2	–	0.8
Yue Yuen Ind	16.5	–	0.5
BANGKOK (Baht)			
Rises			
Asian Marine	15.0	+	1.0
Interlife	60.5	+	5.5
Kuang Pei San	29.0	+	2.25
Falls			
Prdkt & FCB	68.0	–	8.0
Thai Theparos	71.0	–	11.0
Tisco	54.0	–	5.5

Frankfurt and Paris closed. New York and Toronto prices at 12.30pm.

Olivetti predicts losses cut by a third

Italian group rebuilds confidence with recovery plan focusing on core businesses

By Paul Betts in Milan

Olivetti, the troubled Italian information technology group, expects to cut consolidated pre-tax losses for its core businesses by almost a third to L264.2bn ($153.9m) in the first half of this year.

The company told financial analysts in Milan yesterday it planned to cut losses by L95bn compared with a pre-tax loss of L350.2bn for the first half of 1996, marking the first time an Italian company has given detailed estimates for first-half figures.

The move reflects Olivetti's efforts to rebuild confidence with the financial community after the trauma of the past year which saw Mr Roberto Colaninno replace Mr Carlo de Benedetti as chief executive last October.

Although the company remains in loss and continues to have a hefty net financial requirement, the figures suggest that it is returning to a more manageable operating situation, a Milan analyst said.

Mr Colaninno also assured the meeting of financial analysts that the company would not seek a capital increase this year. "This is the moment to consolidate our operating results and complete our strategic plan," he said.

Mr Colaninno has launched a recovery plan involving asset sales which will refocus Olivetti on three core businesses: information technology, telecommunications and office equipment. The company recently sold its loss-making personal computer operations.

Mr Colaninno said the group was looking for a partner for its information solutions subsidiary, which maintains computer and software systems and has been renamed Olsy. This would help the company develop its global activities. He said he was in talks with a number of interested parties.

However, he said Olivetti regarded this business as a part of its core and did not intend to sell control.

Olsy is expected to have sales of L4,500bn this year, accounting for half of the group's overall turnover in 1997, expected to total L9,000bn. The first-half pre-tax loss estimates disclosed yesterday did not include the losses of Omnitel, the mobile phone company controlled by Olivetti.

Mr Colaninno said Omnitel, which started operating in December 1995, had already gained 1m subscribers and expected to break even in 1998.

The pre-tax losses of Olivetti's traditional businesses totalled L171.2bn in the first quarter of this year and are expected to be reduced to L93bn in the second quarter.

Asset sales are expected to total L300bn this year, with a net financial gain for the company of L300bn.

Chief executive defends strategy for restructuring

BTR shares fall sharply after profits warning

By Ross Tieman in London

Shares in BTR, Britain's biggest conglomerate, fell sharply yesterday after brokers slashed their profit forecasts in response to a gloomy trading statement.

Mr Ian Strachan, the company's chief executive, was obliged to defend his restructuring strategy after he told shareholders at the annual meeting that weak demand and intense competition in Germany and Australia would *hit the company's margins.*

Analysts cut their profit forecasts for the year to December 31 by around £150m ($245m). Most now expect the *company to make pre-tax prof*its in the range £1.18bn to £1.22bn, down from £1.3bn in 1996.

Shares in the group closed 36½p down at 231p. Brokers said that a placing of 80m BTR shares at just 219p, carried out after the announcement by SBC Warburg, had contributed to the rout.

In his update to shareholders, Mr Strachan, the former RTZ executive appointed to revive the fortunes of BTR almost 17 months ago, said the strong pound would reduce the value of sales, when translated into sterling, by £349m this year. Operating profit would be £35m lower.

But it was his warning of a fall in underlying operating profits during the first half "as a result of the weak economic conditions prevailing in Germany and Australia" that surprised analysts. Together, these countries account for 30 per cent of sales.

"You are looking at profits this year being lower than last despite all the pay-backs from restructuring," said one. "The promised land is always getting further away".

Another said that BTR's debts were now on course to reach £2bn, bringing the company's gearing – its debt to equity ratio – to more than 60 per cent.

The announcement wrong-footed analysts. Shares in BTR fell sharply last year, ahead of a 35 per cent cut in the dividend. But in recent months, some brokers have been recommending the stock to clients as a recovery prospect.

The dividend cut followed a strategic overhaul by Mr Strachan that reorganised BTR into four key business streams; automotive components, power drives, process control equipment and packaging and materials.

Mr Strachan said his recovery strategy was on course to deliver. "We expect the underlying performance of the group's continuing businesses will improve in the second half of 1997," he said.

BTR had completed 80 per cent of its £2.3bn disposal programme. Some 50 cost-reduction projects were under way, to be financed by £300m of provisions taken last year.

Ian Strachan: warned of a fall in underlying operating profits but said his recovery strategy was on course Picture: Tony Andrews

The company said yesterday it had agreed to sell its manufacturer of marine and railway diesel engines, Mirrlees Blackstone, to Anglo-French engineering group GEC Alsthom for an undisclosed sum. The business has annual sales of £84m from factories in the UK, Australia, Canada and Singapore.

Simultaneously, it is buying *Parvex*, a *French* manufacturer of motors and control devices, from GEC Alsthom to boost its power drives division.

Lonrho severs sugar links with $371m disposal

By Ross Tieman in London

Lonrho yesterday severed its ties with the sugar business upon which its fortunes were founded by Mr Tiny Rowland 34 years ago.

Chief executive Mr Nicholas Morrell announced the sale of the conglomerate's 94.25 per cent interest in Lonrho Sugar Corporation for £227m ($371m) to Illovo Sugar of South Africa.

The deal is expected to halve Lonrho's debt to around £248m, and pave the way for a sweeping restructuring involving the demerger or sale of its African trading business.

It is understood that Mr Morrell now plans to apply any spare cash within the group to the development of the core mining business. In particular, he wants to buy out the 27 per cent of Lonrho Platinum controlled by Gencor, the South African mining house.

Mr Rowland, who is still Lonrho's largest private investor, said he would send a circular to shareholders about the sugar sale and other recent developments next week.

Mr Rowland started growing sugar in 1963 in Malawi and the success of the enterprise helped him revive the near bankrupt London and Rhodesian Mining and Land Company that later became the Lonrho conglomerate.

But he was unsentimental about the sale. "I have taken a couple of hundred million out *of Lonrho*," he said. "I haven't done badly."

Under Mr Rowland, Lonrho went on to acquire sugar plantations in Mauritius, South Africa and Swaziland. In the year to March 31 1996, Lonrho Sugar made pre-tax profits of £27.8m on sales of £99.6m.

Illovo Sugar is South Africa's leading sugar producer. It is controlled by CG Smith Foods of South Africa.

Shares in Lonrho Sugar are quoted on the Johannesburg Stock Exchange and the Swaziland Stock Market. They last traded at R16.20 on Monday. Illovo is paying R13.90 per share in cash.

Illovo will finance the deal through the issue of 130m new shares at R8.50 each.

Analysts said the deal would modestly dilute Lonrho earnings, reducing current year profits by around £5m. "It is an important strategic step in sorting out Lonrho's balance sheet," said one. But a rival broker suggested the price was too low, and that Lonrho shares, up 1¼p yesterday at 137p, were overvalued.

In a further clean-up of the balance sheet, Mr Morrell, who replaced Mr Dieter Bock as chief executive last October, is set to announce provisions of £15m to £20m alongside half-year results at the end of June.

It now appears unlikely that the sale of around seven of the group's Princess Hotels to Prince Alwaleed bin Talal bin Abdulaziz al Saud, the Saudi investor, will be achieved before the interim announcement. However if the deal can be completed Lonrho is expected to emerge debt free.

Observer, Page 19

PlayStation sales help Sony double its profits

By Michiyo Nakamoto in Tokyo and Alice Rawsthorn in London

Strong sales of the PlayStation video games system and a favourable exchange rate helped Sony, the Japanese electronics and entertainment group, to more than double pre-tax profits last year.

Sony, which also benefited from the release of best-selling albums by The Fugees and Celine Dion, saw consolidated pre-tax profits soar to Y312.4bn ($2.5bn) from Y138.2bn in the year to March 31, on sales up 23 per cent to a record Y5,663.1bn. Group net profits rose sharply to Y139.5bn from Y54.3bn, exceeding Sony's orig*inal forecast* of Y132bn.

The Japanese group predicts continued growth in sales and profits for this financial year buoyed by growing demand for digital products including its new digital video disc systems. It expects sales to rise 8 per cent to Y6,100bn, and net profits by 15 per cent to Y160bn.

Sony's strong performance last year owed much to the favourable exchange rate, which increased income from the foreign markets that pro*vide nearly 70 per cent of* group sales. Without the depreciation of the yen against the main currencies, sales would have been about Y520bn lower, and operating profits would have fallen by 6.9 per cent, rather than rising by 57 per cent rise to Y370.3bn.

However, Sony also benefited from a strong performance across its consumer electronics interests. Video equipment sales rose by 11 per cent, and camcorder sales by 14 per cent. Audio equipment also fared well, with sales rising 14 per cent on the back of brisk car audio and minidisc sales. The television division benefited from demand for computer monitors and increased sales by 30 per cent.

Other products including lithium ion batteries and cellu*lar phones also showed strong* growth. The star performer was the PlayStation, which recorded global sales of 13.5m hardware units and 98m software titles.

The entertainment division, which contributes about a quarter of overall sales, benefited from a robust performance by Sony's record companies, as well as its television shows and video titles.

Eramet chief faces removal

By Kenneth Gooding, Mining Correspondent

A French government decision to remove the chairman of Eramet, the French metals group, was greeted with dismay by some minority shareholders and analysts yesterday.

The government, owner of 55 per cent of the company, will seek the removal of Mr Yves Rambaud at Eramet's annual meeting on May 29. It follows Mr Rambaud's opposition to government plans to hand over one of Eramet's nickel concessions in New Caledonia to appease nationalists *there.*

"This is very disappointing because Mr Rambaud is an excellent corporate manager and one of the few that fought *for minority shareholders,*" said Mr Emil Morfett, analyst at Paribas Capital Markets, the French investment banking house.

On *Tuesday* the nine members of Eramet's management committee publicly expressed their support for their chairman. In a letter to Mr Remy Chardon, president of Erap, the French state group through which the government holds its Eramet shares, they criticised Mr Chardon for attacking Mr Rambaud before the start of negotiations with Canadian mining group Falconbridge and its SMSP mining partner in New Caledonia.

The government is backing a plan by SMSP, a company controlled by Kanak national*ists, to build a smelter with* Falconbridge using nickel from an Eramet concession.

Mr Chardon, who joined Eramet's board on April 16, had blamed Eramet's managers for wasting "an enormous amount of time" in the dispute.

Mr Chris Pearson, analyst at Flemings Global Mining Group, said he hoped other managers would not leave as it would leave minority shareholders even more exposed.

Erap announced on Wednesday that Mr Thierry Chambolle, 57, deputy managing director of Lyonnaise des Eaux, in charge of strategy and technical development, would become chairman of Eramet.

Argentaria makes job of redundancies

The scale of the bank's problems demands a radical response, its chairman tells Tom Burns

The problems facing Argentaria, the Spanish banking group which will be fully privatised next year, may be worse than elsewhere in the domestic financial sector, but they are familiar enough – Argentaria has too many staff and a lot of superfluous luxury.

The difference is the radical approach to solve them, announced by Mr Francisco González, a wealthy former stockbroker who made Argentaria chairman a year ago by the incoming centre-right government.

Unions sit down with Argentaria's management today to discuss 2,100 redundancies at Banco Exterior – nearly one-third of the staff at the group's flagship institution – in what amounts to the biggest proportional labour shake-out ever proposed by a domestic bank.

Labour leaders call the job cuts a "provocation" and flatly oppose them. Mr González says they are "the most reasonable solution" to a situation that brooks no alternative.

Employees at Exterior, the government's former export bank, are paid 20 per cent more than the banking sector average and 30 per cent more than those who work at Caja Postal, the former post-office bank now part of the Argentaria group. Argentaria has 13.7 employees per bank branch against the domestic sector's average of 8.6 and its overall salary costs in 1996 exceeded the group's net interest income by 12 per cent.

Mr González, who made his first fortune developing information technology and his second building up a stockbroking firm which he sold to Merrill Lynch, says Argentaria's cost structure is "catastrophic".

He argues that a surgical knife is now required to deal with symptoms that could have been painlessly cured eight years ago when a clutch of state banks began to be merged into the Argentaria group.

He also wants to get rid of Argentaria's headquarters, a magnificent palace built by a railway speculator midway through last century, and its fine collection of old masters.

"Banks have to make money. They don't need pictures and piles of pretty brick and marble." He believes the corporate headquarters would serve the nearby Prado museum better than Argentaria and that MPs should occupy Exterior's main offices, close to the parliament building.

Museum piece: Francisco González says the corporate headquarters should serve the Prado

The impending union-management battle at Argentaria will set new standards for job cuts in the highly unionised domestic banking sector.

Other big banks suffering from over-manning as a result of merger processes are implementing less ambitious and more costly staff reduction programmes.

Banco Bilbao Vizcaya and Banco Central Hispano have shed 15 per cent and 12 per cent of their staff respectively over five years under voluntary retirement packages that offered 100 per cent of take-home pay.

Argentaria's management is insisting on compulsory retirement at 53, it wants to complete the planned cuts in three years, and it offers 78 per cent of existing salaries to those who lose their jobs.

It also wants to eliminate basic pay differentials within the group and to introduce productivity incentives and geographical mobility for employees.

The outcome of the union-management talks will also determine the bank's viability as an independent institution, Mr González says.

Time is running out for Argentaria because the government plans to sell its remaining 25 per cent stake in the banking group early next year. Before the disposal, Mr González wants to have a stable group of funds in place "more as partners than as shareholders" to ensure the group's independence.

Low profitability has hit Argentaria shares and Mr González is worried that the bank group is "now so cheap that it is a very desirable takeover target". He believes a hostile acquisition would certainly involve even more job cuts and, possibly, the break-up of the group.

Mr González, who has personally spent Pta1.5bn ($10.3m) on Argentaria stock since he became chairman, is convinced that the best defence against a takeover is a marked improvement in bank's share price.

As he faces up to the unions, he can at least take heart from the response of fellow investors. Argentaria's shares have strongly outperformed the Madrid market since the redundancy plans were announced at the begining of the week.

Bank Leumi targets European investors

Bank Leumi, Israel's second largest, has been on the road in Europe this week ahead of a secondary offering of at least 10 per cent of state-owned shares later this month.

A successful offering would lower the state's stake to 72 per cent and could raise at least Shk500m ($147m) – about 13 per cent of the government's Shk4bn privatisation target for 1997. Between 10 per cent and 20 per cent of the bank will be offered in shares and options, half to be realised immediately.

The decision to sell up to 80 per cent of the offering to European investors highlights the lack of capital available in Tel Aviv. It is also a way of aiding the revival in the local market, recently awakened after a slump which began in 1994.

"Israeli investors will look at [the] European investors' decision as something to consider positively," says Mr Meir Jacobson, general manager of MI Holdings, the government company charged with selling state-owned banks. "If they buy, Israelis will say 'we should buy, too'."

Although Mr Jacobson insists pricing will be "according to the market", he hints at a possible discount of 2-3 per cent. Analysts say Leumi trades cheaply at about book value, compared with its European counterparts which trade at as much as two or three times book value.

For now at least, the government has put aside its plan to sell a controlling stake in Leumi to a private investor, after failing to find a suitable buyer in 1994.

Mrs Galia Maor, chief executive since 1995, has revamped the bank, which had been saddled with a bloated workforce and loss-making overseas operations. Annual net profit rose 24 per cent to Shk564m last year, in spite of a 2 per cent decline in operating and other income over the same period to Shk2.08bn.

Mrs Maor has completed the disposal of all but two of Leumi's New York branches. She has reversed losses of Shk197m in 1994 and Shk50m in 1995 at remaining subsidiaries to profits of Shk15m last year. A voluntary retirement programme, pushed through last year, trimmed the workforce of more than 10,000 by about 3 per cent. Profits rose in spite of Shk187m costs for the retirement programme, largely because of management's success in keeping operating and other expenditures flat at Shk3.6bn.

"Management has done an outstanding job of keeping costs lean," says Mr Daniel Carasso, analyst at Union Bank of Switzerland. "Bank Leumi and Hapoalim, the largest bank, are big guys in a little room. The only real way for a big company in a mature industry to grow earnings rapidly is to lower costs, and fortunately Leumi is in a state where this can be done."

In addition to cost control, doubtful debt provisions were cut from a high of Shk959m in 1995 to Shk611 last year. Falling provisions are the clearest indicator that the Kibbutz debt crisis – involving billions of shekels of bad loans from Israeli banks to the failing agricultural communities in past years – has been consigned to history.

However, Leumi's biggest weakness appears to be one it cannot control: the Israeli economy. After eight years of solid 5-6 per cent annual average growth, following a wave of immigration from the former Soviet Union in the early 1990s, Israel is bracing itself for a slowdown.

Avi Machlis

EUROPEAN NEWS DIGEST

Endesa slides 8% on higher charges

Higher depreciation charges led to an 8 per cent fall in first-quarter net profits at Endesa, the leading Spanish electricity group, in which the government is set to sell part of its controlling shareholding later this year. The charges resulted from a government measure allowing companies to revalue their fixed assets to reap tax benefits. Endesa said it had managed to offset most of the immediate impact of this change with efficiency savings.

Without the revaluation, profits would have risen 4 per cent from Pta42.64bn in the same period last year, instead of falling to Pta39.21bn ($270.3m). Operating revenues of Pta309.17bn showed an increase of Pta96.45bn as a result of the full consolidation of regional companies Fecsa and Sevillana. Endesa raised its stakes in both companies last year to 75 per cent, from 49 per cent and 40 per cent respectively. On a comparable basis, however, revenues were down 4 per cent, mainly reflecting a 3 per cent cut in tariffs. Further tariff cuts are due over the next four years under plans for deregulating the power sector.

David White, Madrid

Deutsche joins Swiss exchange

Deutsche Bank has become the first foreign bank to join Switzerland's new electronic stock exchange, which was set up last August. The Swiss stock exchange has 50 members but only a handful of foreign firms. The decision by Deutsche Bank (Schweiz) to apply for full membership of the stock exchange (it joined Soffex, the Swiss derivatives exchange, two years ago) will be seen as a sign of increasing international confidence in Switzerland's new automated share trading system.

Mr Otto Nägeli, who runs the Swiss exchange's markets division, said he expected several more foreign-owned banks to become members. The new system had coped well with the 60 per cent jump in trading volume between the last quarter of 1996 and the first quarter of 1997, he said. Initial fears that the biggest trading would be transacted outside the new market had proved unfounded, Mr Nägeli said: 78 per cent of the value of all share transactions went through the market.

The new exchange appears to be drawing share trading back to Switzerland. Mr Richard Meier, responsible for the exchange's international business, estimated yesterday that London's share of the trading of Swiss shares had fallen from 40 per cent two years ago to 12 per cent.

William Hall, Zurich

San Paolo details offer

Istituto San Paolo di Torino, Italy's largest banking group, said yesterday its global privatisation offering would be for 27 per cent of its capital, or 220m shares. The offer, to be launched between May 19 and May 23, will also include a "greenshoe" – or over-allotment – option of 33m shares. If the entire greenshoe is exercised, the total offer will involve 31 per cent of the bank's share capital. A minimum of 70m shares, or 8.5 per cent of the capital, will be offered to the public, while 20m shares, or 2.5 per cent, will be reserved for bank employees.

The bank has already reached agreement with a core group of strategic shareholders involving about 23 per cent of the capital. It has also agreed to sell stakes to a number of large institutions. The maximum price of the shares on offer will be announced on May 18, on the eve of the flotation.

Paul Betts, Milan

COMPANIES AND FINANCE: EUROPE

Big retail groups eye Italian wallets

Rinascente's Auchan tie-up reflects a new consumer trend, writes Paul Betts

The partnership announced this week between the French Auchan supermarket group and Rinascente, one of Italy's oldest and biggest retailers, marks the beginning of a long-awaited shake out in the Italian retail sector.

"Like our banking system, retailing in Italy is a highly fragmented and regulated business," says Mr Stefano Ferro, managing director of the Standa retail and supermarket chain, one of Rinascente's main domestic competitors. Even before this week's alliance between his rival and Auchan, Mr Ferro was suggesting that Italy's retail industry was poised for significant change.

Despite pressure from small retailers to block the development of large chains and big commercial centres, it was only a matter of time before a wave of concentration swept the market. "Either two big Italians will get together, or one will go with Auchan or its French rival Carrefour," Mr Ferro predicted at the time. "It happened in Spain where distribution is now increasingly in French hands; it could now well happen here."

And now that the movement has started it is bound to snowball, since Rinascente's and Auchan's competitors can hardly remain indifferent.

The current economic squeeze has hit consumption hard. Mr Sergio Bille, chairman of Confcommercio, the Italian retailers' association, recently said consumption would fall as much as L14,500bn ($8.52bn) this year as a result of Italy's growing tax burden.

In turn, this would lead to more small business closures. Confcommercio's research department says 100,051 commercial enterprises closed in Italy last year, compared with 84,796 start-ups – a negative balance of 15,255 businesses, double the gap of 1995.

But even the mounting difficulties faced by smaller retailers are unlikely to lead to a sudden rash of takeovers and concentrations. For one thing, mass retailing started much later in Italy than in other industrialised countries. Hypermarkets have so far not had the same explosive growth as in France, and US-style shopping malls are rare.

"What has slowed down the development process has been the dominant force of the relationship between retailer and customer," explained Mr Ferro, who is also a board member of the Italian association of distribution companies (FAID). Until recently, the Italian consumer has essentially looked for value rather than price, as well as a personal rapport with the shopkeeper. Italy has about 900,000 small retailers: in the UK, with a comparable population, the number is 300,000.

Small retailers have traditionally enjoyed strong political support in Italy, which has further blocked the development of large chains and commercial centres. The overall annual turnover of mass retailers in Italy is about L60,000bn. Coop, the biggest, has an annual turnover of about L13,000bn, followed by Rinascente with sales of L7,200bn last year, and then Standa with L4,200bn. By comparison, Auchan alone has annual sales of about L40,000bn, while the large German chains have even bigger turnovers.

Tough regulations continue to protect the small retailer in Italy. Recent legislation, fiercely opposed by the mass distributors, has put a further block on development by placing a limit of 20 per cent on any surface area expansion of existing retail outlets. To develop a greenfield site can take anything up to 10 years.

All these restrictions have made it extremely difficult to penetrate the Italian market.

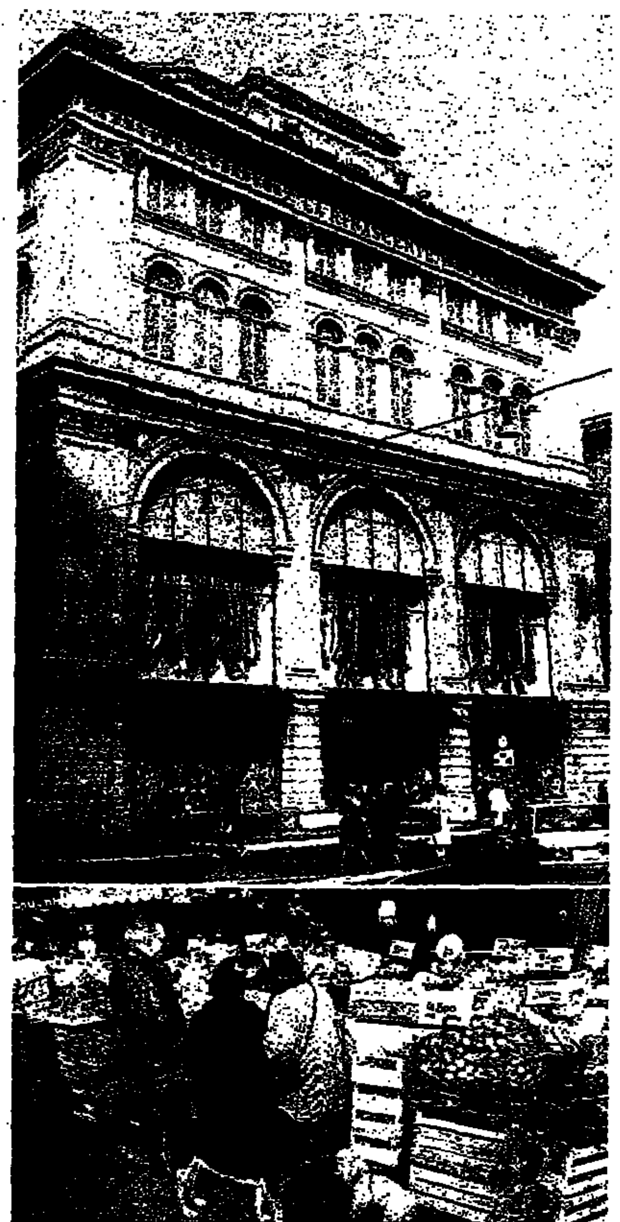
French group Carrefour, for example, has tried twice to develop a presence in Italy. It gave up twice, and is now trying again. Before its alliance with Rinascente, Auchan had developed with great effort four commercial centres in Italy, and has been struggling to open a fifth.

Many other international chains have preferred to steer clear of the complications of entering the Italian market; and those that have taken the plunge have tended to do so with relatively modest alliances with an Italian partner.

Consumer trends, however, are changing. Italians, who have traditionally spent a large portion of their budget on food, appear to be eating less and travelling more; and in so doing they have been discovering the convenience of shopping in a modern commercial centre. Above all, the economic recession is making them more price-conscious.

For big international retailers Italy has obvious attractions: a large, underdeveloped, fragmented market with huge potential once the protective barriers fall as a result of greater European integration.

This is why Auchan was prepared to pay this week a hefty premium to forge a long-term alliance with Rinascente and take pole position in the race for leadership of the Italian distribution business.



Trevor Humphries

Big Italian groups such as Rinascente (top) are likely to make life much harder for small, traditional retailers

Copaxone helps Teva rise 68%

By Judy Dempsey in Jerusalem

Teva, Israel's largest pharmaceuticals company, yesterday reported a 68 per cent rise in profits for the first quarter, compared with the same period in 1996.

It attributed the surge to exports, recent acquisitions and the success of Copaxone, its multiple sclerosis drug.

Net income was US$31.5m compared with $18.6m, while sales rose 22 per cent from $220m to $268m.

The profits were also slightly ahead of last year's fourth-quarter figure of $30.2m. However, sales over the same period slipped by $10m.

Profits for the first quarter were boosted by the inclusion for the first time of of Biocraft Laboratories in the US.

However, analysts said that the introduction of six new generic drugs in the US market, as well as last December's approval by the US Food and Drug Administration for the launch of Copaxone, were the real engines of growth.

"Copaxone is beginning to kick in," said Ms Debra Kodish, analyst at Zannex Securities.

Copaxone is the only non-interferon drug for treating multiple sclerosis.

Teva did not reveal what percentage of sales in the first quarter was earned by Copaxone, which is expected to obtain approval for marketing in the European Union later this year.

But Teva and analysts are expecting the drug – which competes with products from Biogen of the US and will later compete with Germany's Schering – to reach sales of $100m this year, rising to $300m by the end of the decade.

Ms Kodish said she expected Teva to be on course to achieve a rise in sales of about 21 per cent this year, with Copaxone accounting for 10 percentage points of that growth. Teva had sales of $953.7m last year and net profits of $73.4m.

Another driving force behind growth is exports, which comprise 71 per cent of Teva's total sales.

The US market accounts for nearly half the company's revenues, despite continuing price erosion, while sales to Europe – which surged 154 per cent from $63.7m in 1995 to $162.4m last year – now account for 18 per cent of Teva's total sales.

The increase in exports is largely attributed to Teva's strategy of diversifying and expanding its generic drug business through global acquisitions. Generic drugs accounted for 80 per cent of the group's total sales in the first quarter.

Shares in Teva yesterday closed up 2.5 per cent in Tel Aviv, at Shk189.47.

OBITUARY

RONNIE BETHLEHEM

Tragically shot and killed in Johannesburg, South Africa on 1st May, at the age of 62.

The funeral, and memorial service to remember and celebrate his life, will take place at the Wolvercote Cemetery in Oxford (UK) at 2.30 pm on Friday 9th May.

COMPANIES AND FINANCE: ASIA-PACIFIC

NEC joins $1bn China venture

By Michiyo Nakamoto in Tokyo and James Harding in Beijing

NEC, Japan's largest semiconductor maker, is making a push into the expanding Chinese semiconductor market by taking a 30 per cent stake in a $1bn joint venture to build China's largest semiconductor factory.

The facility is to be built with Shanghai Hua Hong Microelectronics in Shanghai.

It is the centrepiece of the Chinese government's strategy to develop the country's semiconductor industry and reduce dependence on imports, which currently supply 80 per cent of domestic semiconductor demand.

The Chinese government has identified the semiconductor industry as a strategic priority in its five-year plan to the year 2000, by which time it aims to more than double annual production from 1.15bn chips to 2.5bn.

Shanghai Huahong Microelectronics, which is affiliated to the Chinese Ministry of Electronics Industry, is expected to take a 70 per cent stake in the joint venture company to be set up with NEC, which will be capitalised at $700m.

The new plant will have the capacity to manufacture 20,000 chips a month, with production scheduled to begin in 1998.

It will use state-of-the art technology, manufacturing mainly memory and logic chips on 8-inch wafers, using advanced 0.5 to 0.35 micron processing technology, NEC said.

The sophisticated technology will allow production of either 16-megabit or the more advanced 64-megabit dynamic random access memory chips, to which leading semiconductor makers are shifting the bulk of their production.

NEC is the world's second largest semiconductor maker after Intel, of the US, and has been one of the most active in globalising its semiconductor operations. It won the right to participate in the project over Japanese and US competitors, the company said.

Its participation in the project will make it the largest foreign supplier of semiconductors in the fast-expanding Chinese market. NEC will bring not only the technology for the project but also marketing and management expertise.

The Japanese company already has a joint venture semiconductor manufacturing facility in Beijing, which was established in 1991 with a local steel manufacturing company.

The company enjoys a 30 per cent share of China's semiconductor market, which was valued at Yn3bn ($352m) in 1995.

The Chinese semiconductor market is expected to grow substantially over the next several years, led by rapid expansion in its electronics industry, which is forecast to export $35bn of goods by 2000.

The Japanese industry expects the semiconductor market in China to triple in size by 2000 to $14.7bn, with an average annual growth rate of 27 per cent.

AP

Private guards were posted to keep order at branches of the ailing Monte de Piedad bank in the Philippines, which were reopened yesterday after a 10-day 'bank holiday'. The country's oldest savings bank was rescued by Keppel, of Singapore, which injected 1bn pesos after Monte de Piedad went bankrupt. Keppel has also pledged to expand the bank's network from its current 31 branches.

Full takeover planned in Finance One rescue

By Ted Bardacke in Bangkok

Finance One, the Thai finance company which was to have been rescued through a merger with Thai Danu Bank, will now be acquired outright by Thai Danu in an attempt to end the conflict over the valuation of Finance One.

Central bank officials said that the switch to a takeover would speed up the rescue process, in which the value of Finance One is likely to be written down sharply.

"Thai Danu will now make an offer directly to Finance One shareholders rather than trying to reach an agreement with the management," one official said. The central bank has seen a merger as a way of restoring confidence in Thailand's financial system.

Analysts said that Thai financial authorities were likely to tell Finance One shareholders that their company would no longer receive emergency liquidity support from the central bank if they rejected Thai Danu's offer.

There has been speculation in Thai financial markets that the merger was on the verge of collapse because Finance One executives were unhappy with Thai Danu's valuation of their company.

After write-offs of bad loans and the sale of the company's hire-purchase business, Thai Danu valued Finance One at less than half its stated book value of Bt34 a share.

On Wednesday, Thai Danu said the deal between the two companies would now take 267 days, rather than the 180 days agreed when the merger was announced on March 14. Shares in both companies have been suspended since March 3.

"The sooner we can get these deals completed, the sooner we can restore confidence among investors," said Mr Thirachai Phuvanatnaranubala, director of the central bank's financial institutions supervision department.

ASIA-PACIFIC NEWS DIGEST

PepsiCo to sell NZ fast food chain

PepsiCo, the US drinks and snacks group, plans to sell its 122-strong chain of KFC and Pizza Hut outlets in New Zealand in a public offer that is expected to raise NZ$170m (US$116m). The sale is part of its strategy to concentrate on franchise and brand development, rather than owning and operating stores.

After the float, the New Zealand KFC and Pizza Hut operations are to be run under long-term franchise agreements by a new company, Restaurant Brands New Zealand. Mr Bill Falconer, chairman of Restaurant Brands, said 85m shares representing 100 per cent of the equity of the company would be offered for sale to New Zealand and international investors. The final price of the offer would be determined by tenders from domestic and international institutions. The shares were expected to fetch between NZ$1.80 and NZ$2.20 each.

KFC and Pizza Hut have been established in New Zealand for more than 20 years and serve 300,000 customers a week, recording growth of up to 18 per cent over the past five years. Restaurant Brands said the New Zealand fast food market was relatively underdeveloped, with families using 20 per cent of their food expenditure on take-away food, compared with 48 per cent in the US. In the year to November 30 1996, the combined operations of Pizza Hut and KFC produced earnings before interest and tax of NZ$20m. *Terry Hall, Wellington*

BHP plans rights issue

BHP, the Australian resources group, is to go ahead with a share purchase scheme that allows its investors to buy a limited number of shares at a discount of 2.5 per cent. Under the terms of the scheme, each eligible shareholder will be able to buy shares up to a maximum value of A$2,400. If all eligible shareholders take up the offer, the Australian company could raise around A$636m (US$493m). The maximum number of shares that could be sold is 36.55m. *Nikki Tait, Sydney*

ICI Australia downgraded

Standard & Poor's, the US rating agency, yesterday lowered its long-term credit rating on ICI Australia from A to A-minus and placed the rating on credit watch with "negative implications". It also lowered its rating on Incitec, the listed fertiliser group in which ICI Australia holds a 72 per cent interest, from A-minus to BBB-plus.

The rating agency said the downgrades followed the news that the parent ICI group planned to sell off its 62 per cent stake in ICI Australia. S&P added that it needed to discuss the implications for growth strategy and financial policies at the Australian group.

ICI Australia shares fell sharply on Thursday in the wake of the news, which came after the Australian market had closed on Wednesday. They ended down A$1.09, at A$11.35, a fall of almost 9 per cent. Mr Warren Haynes, managing director of ICI Australia, said yesterday that the earliest the UK parent might sell its stake, worth about A$2bn (US$1.55bn) after yesterday's price falls, was probably July. *Nikki Tait*

Coles Myer sales ahead 6.5%

Sales at Coles Myer, Australia's largest retailer, rose 6.5 per cent to A$4.5bn (US$3.49bn) in the third quarter. The result brings sales for the first three quarters to A$14.5bn, a 5.7 per cent increase. Coles said the gains were strongest in food, liquor and general merchandise while apparel sales lagged. *Nikki Tait*

APN buys 3M advertising unit

Australian Provincial Newspapers, the regional newspaper and advertising group owned by Mr Tony O'Reilly, is buying Australian Posters, the outdoor advertising division of 3M Australia. No price was disclosed. *Nikki Tait*

News Corp up sharply in third quarter

By Nikki Tait in Sydney

News Corporation, Mr Rupert Murdoch's media and entertainment group, yesterday surprised analysts by posting sharply improved third-quarter profits of A$426m (US$330m) before tax and abnormal items.

In the same period a year ago, News Corp made A$299m.

The rebound pushed News Corp's after-tax earnings for its first nine months to A$1.107bn before abnormals, an increase of 17.3 per cent on the same stage a year ago. Profits after tax and abnormals were A$1.02bn, up from A$779m previously.

Earnings per share reached nine cents in the quarter after tax and abnormals, and 30 cents for nine months, against 24 cents.

The results were better than most analysts had expected. Several said the figures should leave News on track to meet its own forecast of a 20 per cent improvement in full-year profits before abnormals.

However, they added that the target might be more easily reached in US dollar terms. News had suffered earlier in the year from a strengthening Australian currency.

The company attributed its improvement in the quarter to double-digit earnings increases in all main divisions except book publishing. Operating revenues across the group rose 22.6 per cent to A$3.74bn.

Some of the largest gains came in the newspapers division, where operating profits in the period rose from A$117m to A$157m.

This was largely due to UK operations, where News said there had been advertising gains at each of its four main titles, improved circulation revenues and lower paper prices. This had resulted in "significantly improved" margins.

By contrast, the Australian newspapers arm was only "slightly ahead" at the operating level. Soft advertising revenues in a slowing economy hampered revenue growth.

The group's US television interests reported operating profits up from A$77m a year ago at A$135m. News said this reflected healthy results from Fox Broadcasting and the inclusion of results from the 10 TV stations acquired in its New World deal.

The film business saw profits increase 36 per cent to A$82m, while the magazines and inserts unit made A$128m against A$111m.

The weak spot was book publishing, which turned in a third-quarter loss of $9m after a deficit of A$1m a year ago. News said high returns led to lower net sales in the US adult trade category.

Associate companies' contribution increased from A$79m to A$102m, partly because of the continued strong performance by BSkyB, the UK satellite broadcaster.

There was a "small profit" from Ansett Airlines, the Australian airline in which News has a 50 per cent stake, although the group's new international operations remained in the red.

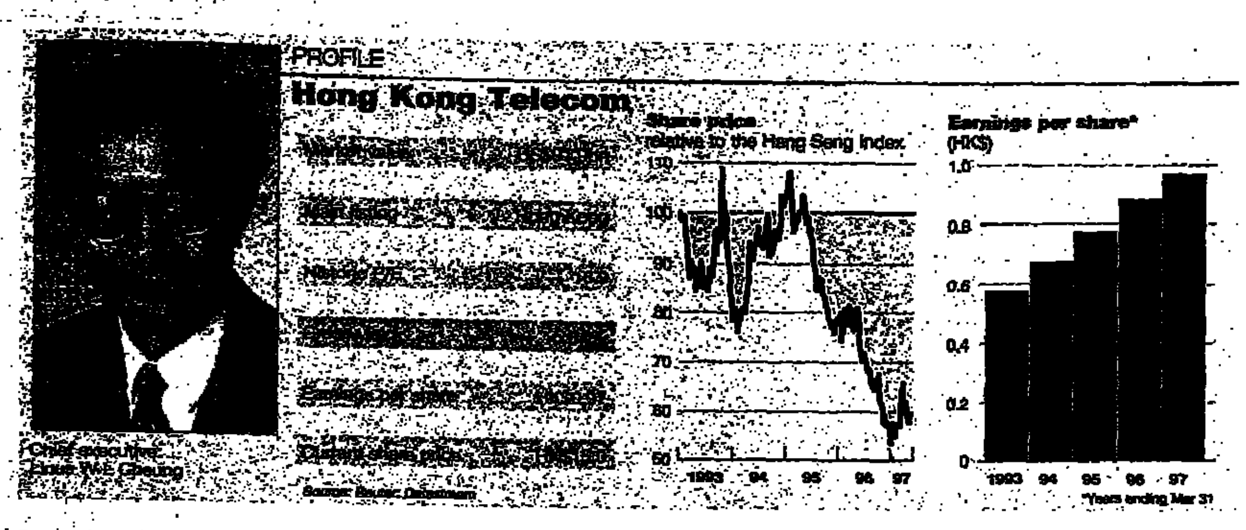
Abnormal charges in the quarter totalled A$46m, down from A$204m a year earlier.

News Corp shares shares fell 5 cents to A$6.01 amid a slide in the Australian stockmarket, sparked by overnight falls on Wall Street.

COMPANIES AND FINANCE: ASIA-PACIFIC

Shares at year-high amid speculation over mainland investors

HK Telecom ahead 12.5%



By Louise Lucas in Hong Kong

Hongkong Telecom, the territory's dominant carrier, yesterday reported a 12.5 per cent increase in net profits to HK$11.18bn (US$1.44bn) as the share price hit a year high amid continuing speculation about ownership restructuring.

The shares closed 5.6 per cent higher yesterday at HK$15 following comments from China's second state-owned telecoms company that it was interested in acquiring a stake. However, analysts reckon any tie-up with the cash-strapped China Unicom is unlikely and that its bigger rival, the Ministry of Posts and Telecommunications, is a more realistic suitor.

Mr Linus Cheung, chief executive of Hongkong Telecom, gave official backing to this view. Acknowledging discussions with Unicom, he added that talks had also been held with the MPT. "Hongkong Telecom has maintained a much closer relationship with the MPT than with China Unicom," he said.

The results were broadly in line with analysts' expectations, although the level of disclosure left many disappointed. After admitting to a loss of 15 per cent of its international direct dial market share at the interim stage, the directors yesterday decided the information was commercially sensitive.

"One can only assume the bigger the numbers get, the less they like talking about them," one analyst said. Rival telecoms operators, which began offering international calls last year, claim an aggregate 20 per cent market share.

Hongkong Telecom said international services revenue grew 3.2 per cent last year, compared with just over 1 per cent the previous year, driven primarily by a 6 per cent growth in China traffic.

As part of an effort to diversify earnings – and to meet the challenge of a possible early end to its international direct dial monopoly, which now stands until the year 2006 – the group has been re-balancing its services. Total revenue from IDD now stands at 53 per cent, compared with 56 per cent last year.

Strong growth was also recorded by the mobile operations, which analysts reckon will come increasingly under assault as the six new lower-cost personal communications services licensees roll out services this year. Revenues from mobile services grew 43 per cent, and the company now claims 390,000 subscribers.

Mr Adam Quinton, analyst at Merrill Lynch in Singapore, said the company's comments on a review of its balance sheet structure and capital efficiency could signal a share buy-back programme next year if foreign investment in China telecoms market – an obvious investment target – is still barred.

Earnings per share for the year grew 9.5 per cent to 97.2 HK cents, and the directors are proposing to raise the dividend payout 12.5 per cent to 76.3 HK cents.

Taiwan banks to be set free

The state-dominated financial sector is losing ground to rivals

Sheu Yuan-dong, governor of Taiwan's central bank, is emphatic. "In nearly all the developed countries, banks are privately owned. Taiwan is trying to internationalise its financial markets. Privatisation is a must."

The patrician central bank governor is so keen to loosen the public sector grip that he is trying to persuade his fellow monetary authorities to add the country's three biggest banks to the privatisation list. These are the Bank of Taiwan, which used to issue currency notes and is wholly government-owned; Land Bank, also 100 per cent state-owned; and Co-operative Bank, which acts as a central bank for the island's credit unions.

"I worked at all of those banks and I know them well," he says. "There's no reason for the government to keep them."

In stark contrast to Taiwan's thriving manufacturing sector, which ranks among the most entrepreneurial in the world, Taiwan's banking system remains dominated by state-run banks.

State-owned Taiwanese banks

Name	Assets T$bn	Privatisation date
[illegible]	[illegible]	[illegible]
Co-operative Bank	1,509	*
[illegible]	[illegible]	[illegible]
First Commercial Bank	947.4	*
[illegible]	[illegible]	[illegible]
Chang Hwa Bank	855.3	*
[illegible]	[illegible]	[illegible]
Chiao Tung Bank	442.7	*
[illegible]	[illegible]	[illegible]

Source: companies

Fettered by legislative budget reviews by lawmakers and a risk-averse bureaucracy, Taiwan's government-owned banks are finding it tough to compete with nimbler new private banks and aggressive foreigners such as Citibank. The government banks' share of total deposits has fallen from 62 per cent in 1991 to 46 per cent last year. Over the same period, the share of total loans has slid to 55 per cent from 64 per cent.

"This trend will accelerate if we do not privatise the government banks," Mr Sheu says. The antiquated state banks are having an especially difficult time recruiting and keeping staff, as private or foreign banks pay ever-escalating salaries.

Many state banks are scheduled for privatisation – which in Taiwan means that government holdings fall below 50 per cent – but the process has encountered legislative and administrative delays.

The most serious of these was when the Provincial Assembly passed a resolution barring the government's stakes in a trio of the country's leading commercial banks – known as the "big three" - from falling below 51 per cent. This put the provincial government at loggerheads with the central government and thwarted its privatisation scheme for five years.

Recently, a more compliant Provincial Assembly has in principle consented to privatise the three commercial banks – Chang Hwa, First Commercial and Hua Nan. But Mr Sheu estimates it will take two to three years before the task is complete, as the scale of these banks is such that shares must be released gradually. As the three banks have cross-shareholdings, once one is privatised the others can be privatised more quickly. The government has a 53 per cent shareholding in Chang Hwa, so that will be privatised first.

"Then they will have a freer hand, and they will become more efficient and better able to compete with private financial institutions," says Mr Sheu. Farmers Bank will be privatised this year and Chiao Tung Bank, originally a development bank, will be privatised in 1998.

Nevertheless, with the privatisation threshold set at 50 per cent of total shares, the state will continue to play an important role.

Laura Tyson

Sallie Mae under siege from rebel group

By Richard Waters in New York

Senior executives of the US's Student Loan Marketing Association, popularly known as Sallie Mae, were meeting shareholders yesterday afternoon to try to stop a rebel group of directors from gaining control of the financial institution's future.

Although the rebels, who include 8 of the company's directors, have won enough backing to call a special meeting of shareholders for today, it remained unclear whether they had yet secured a majority of the votes – or even, if they did, whether this would be enough for them to dictate Sallie Mae's future direction.

"At this stage, it's really tough to call," said Mr David Hochstim, an analyst at Bear Stearns in New York, with large shareholders having lined up on both sides of the dispute.

Shareholders in the company, a government-backed institution set up to help finance student loans, are being asked to choose between two rival business plans. Both are blueprints for how it will operate once the Federal guarantee under which it has operated is removed, which was provided for by Congress last September.

Although it enjoys government backing, making it similar to the larger Fannie Mae, Sallie Mae is a private company. Its stock market value has jumped more than three-fold in the past two years, to $6.2bn, as the agency has cut costs and embarked on a successful expansion plan – for which the rebel directors have tried to take credit.

The group, led by Mr Albert Lord, a senior Sallie Mae executive, has proposed a more aggressive expansion that would give the company a bigger role in marketing its loans direct to students. At present, it acts largely as a wholesaler, refinancing the loans already extended by banks and others.

Institutional Shareholder Services, a research group that advises 400 institutional investors on corporate governance issues, came out this week in favour of the existing management's plan.

"We think they [current management] have executed their plan well – they've produced fairly impressive results," said Mr David Drake of ISS. The rebels' plan was "substantially more risky", since it would involve Sallie Mae competing against the banks that it relies on for business, he added.

Mr Hochstim, at Bear Stearns, said that the real question for shareholders was "more of a governance issue – do you want the existing management, or do you want to give Al Lord more control?" The existing management, under Mr Lawrence Hough, chief executive, had developed a plan favoured in Washington for the company's privatisation and had proved it was "very well aware of the marketplace," he added.

Even if a majority of the shares outstanding are voted in favour of the dissidents' plan, it is not clear they will prevail. Mr Timothy Greene, Sallie Mae general counsel, claimed that the rebels "haven't in our view gone through the proper steps" in calling the vote, and that support for their view would not be binding on the company anyway.

"We're likely to have a protracted legal battle that will be costly for shareholders," said Mr Hochstim.

AT&T chiefs quit to join new venture

By Richard Waters

The leading executives at AT&T's most successful unit, the wireless business founded on its acquisition of McCaw Cellular three years ago, are to leave to set up a new telecommunications venture.

The departures of Mr Steve Hooper, president and chief executive of AT&T Wireless, and Mr Wayne Perry, vice-chairman, add to the growing stream of senior managers who have left the biggest US telecommunications carrier in the past year.

The group, which includes Mr Alex Mandl, former president, and Mr Joseph Naccio, former head of consumer long-distance services, has been drawn in part by the chance to make personal fortunes in start-up companies as deregulation opens the US markets to new competition.

The latest executives to leave – along with Mr Gerry Salemme, AT&T vice-president for federal government affairs – are to join One-Comm, a new company set up to provide local telephone services. The company has the backing of Mr Craig McCaw, the telecommunications entrepreneur with whom all three worked before he sold his cellular business to AT&T.

Yesterday's moves also raised a question over AT&T's own attack on the local telephone markets, which are in the process of being opened up to competition. Earlier this year Mr John Walter, president, unveiled a new short-range wireless telephone technology, known as "fixed wireless", which he said could eventually become the company's most important weapon in attacking the local Bell companies which currently dominate local calling.

Mr Hooper and Mr Perry both said yesterday that they would stay closely involved with AT&T's development of fixed wireless, and that the system was still expected to be available for its first trial late this year.

OneComm, they added, would consider using fixed wireless itself to build systems in local markets around the country. The company plans to start developing networks in smaller cities than those which AT&T is likely to target for its first attack on local markets, they said.

Donna Karan posts sharp fall in profits

By Alice Rawsthorn

Donna Karan, the New York fashion house, plans a wide-ranging cost cutting programme following a collapse in first-quarter profits.

The company, which earlier this week announced the sudden departure of Mr Dewey Shay as chief administrative officer, suffered a sharp fall in net income to $806,000 in the first three months of this year, from a pro-forma $6.2m in the same period of 1996.

The poor first-quarter performance, which the company attributed to production problems and rising overheads, is the latest blow for Donna Karan since its New York flotation nearly a year ago.

In stark contrast to more successful "glamour stocks" – notably Gucci – Karan's shares have fallen sharply since it went public. The shares, which rose to $28 on their first day of trading from an issue price of $24, stood at $10⅞ in early trading yesterday, up $¼ on the day.

Donna Karan is one of the best-known fashion designers in the US, with high-profile clients such as the actresses Demi Moore and Barbra Streisand. However, her brand is less well-established outside North America than those of rival designers such as Ralph Lauren and Calvin Klein. Similarly, her cosmetics business is less well-developed.

The company, which owns the DKNY sportswear range as well as the Donna Karan ready-to-wear collection, said design and manufacturing costs had risen sharply during the quarter. It also incurred additional cost from the opening of eight new stores and ongoing investment in its shop-in-shop network.

It also suffered a slight decline in sales during the quarter from $159.59m to $158.78m, caused by the delay of some spring deliveries until the second quarter and the contraction of its jeans business after a licensing deal fell through.

Karan now plans to cut costs in an attempt to improve profitability. It expects the second quarter to be "a transition period", but hopes to improve its financial performance during the second half of the year.

Lex, Page 20

The brand is less well-established outside North America

IBM buys rest of Advantis from Sears

By Louise Kehoe in San Francisco

International Business Machines has made Advantis, its US data-networking services joint venture with Sears Roebuck, a wholly owned unit by buying Sears' 30 per cent stake for $450m.

The purchase reflects the expansion of IBM's global networking services operations in the provision of Internet data communications services for businesses worldwide.

"Because we believe network computing will contribute significantly to IBM's future success, we decided that acquiring full ownership of Advantis was increasingly important to our network computing strategy," said Mr Dennie Welsh, senior vice-president in charge of IBM Global Services.

Network computing is the primary focus of IBM's strategy for growth, Mr Lou Gerstner, chairman and chief executive, told analysts on Wednesday.

Four years after his arrival at IBM, Mr Gerstner gave an upbeat assessment of the computer company's prospects. The problems the group faced when he took over had largely been solved, he said.

The personal computer, data storage and services divisions, which had been losing money in 1993, were now profitable, he said. The company now had "no big money losers".

"Over the last four years we have substantially broadened and diversified the base of our growth and profitability," Mr Gerstner said. The issue now was whether IBM could take advantage of growth opportunities.

Several analysts raised their forecasts for IBM's share price after the presentation, and the stock rose $6⅛ to $1.68⅛ in morning trading yesterday.

US mutual fund sales recover

By John Authers in New York

US mutual fund sales recovered last month after a sharp fall in inflows during the stock market correction of March.

However, heavy equity market volatility left net flows at barely half their record levels of 1996, according to estimates released yesterday by the Washington-based Investment Company Institute.

New investments in equity funds exceeded redemptions by $13.5bn last month – comfortably above the March level of $10.51bn, but well below the $26.07bn recorded last April. Bond funds were flat, with inflows almost exactly equal to outflows.

As recently as January this year, a month in which US equity markets gained more than 5 per cent, equity funds showed a record inflow of $29.1bn.

The figures remain high by historical standards.

This is thought to be due to demographic trends, with the children born in the post-war "baby boom" now passing 50 and investing for retirement.

However, some commentators believe the sales may be the product of the recent bull market, and that the fall-off in demand suggests investors may have been deterred by the market's volatility.

Mr David Williams, chairman of Alliance Capital Management, a large New York-based fund manager, said: "It's easy to confuse the cyclical and the secular. We know we are in a secular trend towards more investment in mutual funds. That was forecast 10 years ago. But the extent of the boom was not forecast."

Alliance's results for the first quarter, announced this week, provided evidence of US fund managers' current profitability, with its post-tax operating profits rising 18 per cent to $53.3m, fuelled almost entirely by increased sales of mutual funds.

Alliance benefited from managing investments for Equitable Life, the US insurance company, which concentrates on the retirement savings market.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 09.05.1997 / Final Prices for Trading 11.04.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.61	22.35	23.02	0.88
0100	11.60	11.63	11.65	0.00
0130	11.61	22.35	23.02	0.88
0200	19.42	22.35	23.02	0.88
0230	19.42	22.35	23.02	0.88
0300	19.42	22.35	23.02	0.88
0330	19.42	22.35	23.02	0.88
0400	19.42	22.35	23.02	0.88
0430	19.42	22.35	23.02	0.88
0500	19.42	22.35	23.02	0.88
0530	14.42	14.09	14.79	0.88
0600	14.42	11.61	11.61	0.00
0630	14.42	11.62	11.62	0.00
0700	14.42	22.47	23.13	0.88
0730	24.18	26.92	27.59	0.88
0800	22.93	26.45	27.18	0.88
0830	40.26	51.51	52.23	0.88
0900	40.58	51.55	52.28	0.88
0930	33.88	41.37	42.09	0.88
1000	34.07	41.35	42.05	0.88
1030	29.51	26.90	27.69	0.88
1100	29.56	29.14	29.88	0.88
1130	29.73	29.14	29.84	0.88
1200	29.76	29.13	29.82	0.88
1230	29.50	27.18	27.88	0.88
1300	28.86	26.95	27.80	0.88
1330	28.59	26.92	27.58	0.88
1400	24.23	24.31	24.98	0.88
1430	24.00	29.08	29.72	0.88
1500	23.97	29.08	29.72	0.88
1530	23.34	24.30	24.97	0.88
1600	28.97	24.16	24.83	0.88
1630	28.97	24.16	24.83	0.88
1700	28.88	29.06	29.72	0.88
1730	22.86	29.06	29.72	0.88
1800	22.58	29.06	29.72	0.88
1830	29.25	23.57	24.24	0.88
1900	20.25	23.57	24.24	0.88
1930	20.25	23.57	24.24	0.88
2000	19.88	11.66	11.66	0.00
2030	11.62	32.73	33.39	0.88
2100	11.62	42.66	43.35	0.88
2130	29.06	42.68	43.25	0.88
2200	28.88	33.62	34.29	0.88
2230	27.16	33.62	34.29	0.88
2300	27.10	26.94	27.61	0.88
2330	11.60	18.07	18.74	0.88
2400	11.60	11.67	12.33	0.88

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the Pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5:15pm Monday to Friday.

Templeton

Templeton Global Strategy Funds
Société d'investissement à capital variable
26, boulevard Royal, L-2449 Luxembourg
R.C. B 35 177

Shareholders of Templeton Global Strategy Funds (the "Company") are hereby informed that the Board of Directors of the Company has determined that, in accordance with Article 28 of the Articles of Incorporation of the Company, one of the Funds, the Templeton Global Infrastructure and Communications Fund (the "Fund"), will in the interests of its Shareholders, be merged into the Templeton Global Utilities Fund (the "surviving Fund"), with effect from June 9, 1997 (the "Merger Date").

The Board of Directors of the Company considers that this merger is justified both legally and economically and is in the best interest of the Shareholders. Indeed, the merger will, inter alia contribute to improved economic administration and it is expected that the combination of these two Funds will result in an increase of the net assets of the surviving Fund.

As a result of this merger of the Fund into the surviving Fund, the name of the latter will be changed to Templeton Global Infrastructure and Utilities Fund and, after the Merger Date, its main features will be as follows:

- The investment objective of the surviving Fund will be to seek long-term capital growth, which it seeks to achieve by investing mainly in equity or debt securities of companies or government entities which are (i) principally engaged in or related to the development, operation or rehabilitation of the physical and social infrastructure of any nation or (ii) principally engaged in or related to the ownership or operation of facilities used to generate, transmit or distribute electricity, gas or water, telecommunications, or (iii) provide products, services or equipment to such companies. The Investment Manager (see below) anticipates that the Fund will invest primarily in common stocks of such companies. However, since the investment objective is more likely to be achieved through an investment policy that is flexible and adaptable, the Fund may seek investment opportunities in other types of transferable securities, including fixed income securities or in the equity or fixed income securities of companies not engaged in or related to the activities described above. The base currency of the Funds will be U.S. Dollars.
- It is anticipated that distributions will be made under normal circumstances quarterly in the case of the Shares relating to the surviving Fund.
- Templeton Investment Management Limited will act as investment manager (the "Investment Manager") to the surviving Fund.
- The Investment Manager will receive from the Company a monthly fee equivalent to 1.25 % per annum of the surviving Fund's average daily net assets during the year.
- The Shares of the surviving Fund will be offered as Class A Shares and will be available in registered and bearer form.

Shareholders who do not concur with this change may, from May 9, 1997 and until the Merger Date, continue to request, free of charge, the redemption of their Shares of the Fund or the exchange of such Shares into Shares of other Funds of the Company, details of which can be found in the current Prospectus (provided that such Funds have obtained recognition for marketing in the Shareholders' jurisdictions).

Templeton Global Advisors Limited will bear the costs associated with the merger.

All the outstanding Shares of the Fund which will not have been redeemed or exchanged into Shares of other Funds of the Company on the Merger Date will be compulsorily converted on the Merger Date into Shares of the surviving Fund, at a rate calculated on the basis of the relevant net asset value per Share of the surviving Fund, as determined on that day.

For further information, Shareholders are invited to contact their nearest Templeton office:

Edinburgh	Frankfurt	Hong Kong	Luxembourg
Tel: Toll-free from U.K. 0800 305 306 International (44) 131 469 4000 Fax: (44) 131 228 4506	Tel: (49) 69 272 23 272 Fax: (49) 69 272 23 120	Tel: (852) 2877 7733 Fax: (852) 2877 5401	Tel: (352) 46 66 67 212 Fax: (352) 22 21 60

The Board of Directors

COMPANIES AND FINANCE: UK

Expansion continues in Asia but Japanese shops could be sold

French side hits Body Shop

By Christopher Price

Body Shop International yesterday blamed difficulties in France for a dip in annual pre-tax profits as it emerged that the retailer's Japanese shops could be floated off before the millennium.

The move, which would be undertaken by the group's Japanese franchisee and not benefit the UK company financially, would enhance the group's brand in Japan.

It was one of a number of developments discussed privately by the group with analysts, who were also told that with its strong balance sheet, Body Shop was considering taking its brand into other business areas, such as publishing.

However, the results disappointed the market and left the shares off 2p at 188p. Pre-tax profits for the year to March 1 declined 3 per cent to £31.7m ($51.4m) after a £6.5m provision for loans made to the company's franchisee in France. French sales had not recovered from poor trading in 1995 and the franchisee was unable to put in additional investment. A successor is being sought.

Sales rose 8 per cent to £622.5m, reflecting continued expansion. Underling pre-tax profits rose 17 per cent to £38.2m. But comparable store sales were flat, with good performances in Asia, Canada and Australia being offset by mediocre showings from the US and the UK.

Some 14 shops were opened during the year in the US, which remains a difficult market for the company. The 287 shops lost £3m, more than double the amount in 1995-96, on static sales of £101m. Like-for-like sales had declined further in the new financial year, falling 4 per cent in March and April. But Mr Stuart Rose, managing director, believed the US business had "turned the corner" although the market remained "very competitive".

There was better news in Asia and the rest of the Americas. Sales in Asia jumped 41 per cent to £109.5m as franchisees expanded rapidly. Like-for-like sales rose just 2 per cent. Operating profits were 36 per cent up at £14.7m.

Of the 118 shops opened in the year, 68 were in south-east Asia and half of these in Japan. Body Shop's Japanese shops, which are likely to number about 100 by the year-end, are operated under a franchise arrangement by Jusco, a subsidiary of Aeon, the Japanese retailer.

Gallaher clears last US hurdle

By Ross Tieman

The £2.2bn ($3.56bn) demerger of Gallaher Group, the UK tobacco company, from American Brands, its US parent, was cleared yesterday by the US Internal Revenue Service.

Approval for a tax-free transaction removes the last hurdle to a demerger that will complete American Brands' exit from the tobacco sector and attendant damages claims from former smokers.

Gallaher, which owns the Benson and Hedges and Silk Cut brands, will now be listed on the London Stock Exchange alongside Imperial Tobacco, which was demerged from Hanson last October, and BAT Industries.

Listing particulars for the company, where American Brands has been involved since 1962, are expected to be published next Thursday. Trading in the shares will begin on June 2.

Mr Thomas Hays, chairman and chief executive of American Brands, described the approval by the IRS as a "key milestone" in the demerger. The sale will end American Brands' long association with the tobacco industry. The American Tobacco Company, established in 1895, was sold to BAT Industries in 1994 together with its Lucky Strike and Pall Mall brands.

Once the demerger is complete, American Brands plans to change its name to Fortune Brands. It will focus on developing its other businesses, which include bathroom hardware, golfing equipment and Jim Beam bourbon and Whyte & Mackay scotch whisky.

Gallaher shares will be distributed free to American Brands' shareholders. Although the shares will also be listed in the form of American Depository Receipts in New York, some US institutional holders are expected to sell, triggering a flow of shares to UK investors.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Athelney Trust	Yr to Dec 31	-	(-)	-	(-)	-	(-)	1	June 19	1	1	1
Avon Rubber	6 mths to Mar 29	165.5	(172.2)	15.6♥	(10.2)	42.5	(24)	6.15	July 25	5.75	-	19.5
Body Shop Intl	Yr to Mar 1	270.8	(256.5)	31.74	(32.7)	9.2	(9.8)	3.2	July 11	2.32	4.7	3.4
Highbury House	Yr to Dec 31	14	(12)	1.83L	(3.02L)	4.1L	(17.7L)	nil	-	nil	nil	nil
Jerdac	6 mths to Mar 28 ☆	15	(7.58)	0.204	(0.818L)	1.3†	(5.7L)	-	-	-	-	-
Kwik Save	28 wks to Mar 15	1,678	(1,703)	40.74	(44.2)	16.99	(18.45)	5.95	July 7	5.95	-	20
Lynx	6 mths to Mar 31	53.9	(38.1)	3.71	(2.07)	2.58†	(1.73)	0.5	Aug 1	0.45	-	1.75
MMT Computing	6 mths to Feb 28	10.7	(8.26)	2.42	(2.37♥)	13.3	(13)	3.6	July 1	2.7	-	8.7
Oxford Molecular	Yr to Dec 31	5.79	(6.18)	1.85L	(3.69L)	3.3L†	(7.2L)	-	-	-	-	-
Recognition Systems	6 mths to Mar 31	0.326	(0.245)	1.13L	(0.292L)	4.2L†	(1.4L)	-	-	-	-	-
Romtec	Yr to Jan 31	4.73	(3.73)	0.326♣	(0.257)	4.3	(3.6)	1.5	July 9	-	1.5	-
Silentnight	Yr to Feb 1	212.2	(189.8)	14.3	(11.1♥)	21.66	(17.48)	7	July 7	5.25	10	8
Telewest Comms	3 mths to Mar 31	90.3	(65.2)	7.28‡	(3.73‡)	4.9L	(3.8L)	-	-	-	-	-
Titon	6 mths to Mar 31	5.76	(5.95)	0.773	(0.823)	4.7	(5)	1.7	July 1	1.6	-	5
Wensum	Yr to Jan 25	14.1	(11.8)	1.3	(1.26)	11.26	(10.94)	3.425	July 1	3.425	5	5

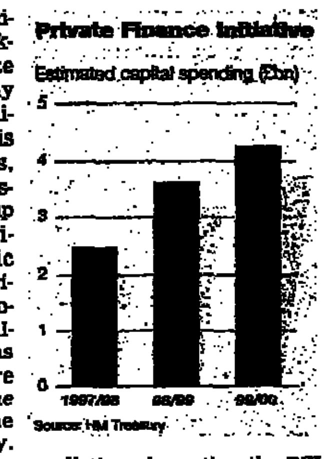
Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Glasgow Income	6 mths to Mar 31	57.05	(52.82♦)	0.397	(0.499)	1.28	(1.61)	0.6#	May 30	0.8	-	2.8
Govett Oriental	Yr to Mar 31	186.77	(213.8)	2.71	(3.49)	0.75	(0.97)	0.47	July 1	0.55*☆	0.67	0.75*
I&S UK Smaller	Yr to Mar 31	198.67	(162.26)	0.526	(0.917)	2.5	(4.37)	1.9	July 7	1.9	2.9	2.9
Wigmore Property	6 mths to Mar 31 ☆	103	(79.9)	0.065	(0.111)	0.27	(0.55)	0.3	June 17	0.3	-	1.2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠Also stock. ♣After exceptional charge. ♥After exceptional credit. ☆Comparatives for seven months to September 27. †On increased capital. ‡EBITDA figure. ♦At September 30. #Second interim; makes 1.2p to date. *Adjusted for scrip issue. ☆Foreign income dividend. ★Comparatives restated.

LEX COMMENT

PFI

Oh dear. Yet another politician is promising to kick-start Britain's private finance initiative. Why complain? Because the initiative's biggest problem is overblown expectations, thanks largely to successive ministers talking up its prospects unrealistically. So a pragmatic means to involve the private sector in public projects is now judged a failure unless it transforms Britain's infrastructure while rescuing both the public finances and the construction industry.



Such lofty hopes were never realistic; reinventing the PFI as "public/private partnerships", commissioning yet another review and constructing yet another taskforce will not make them more so. Of course, no-one should complain if Mr Geoffrey Robinson, the paymaster-general, can find ways to break log-jams. And his decision to ditch the requirement to consider private finance for all projects is common sense. But there are dangers if the government's enthusiasm prompts it into bigger steps. Mr John Prescott, the deputy prime minister, has long advocated a more relaxed approach to risk allocation between the public and private sectors. Fine, but in his present hair-shirted mode, Mr Gordon Brown, the chancellor, should insist that this does not become a means of sweeping public borrowing under the statistical carpet. After all, if the new government believes its "golden rule", which allows public borrowing for capital but not current spending, it should not have the same incentive as the Tories to use the PFI to fiddle the books.

McAlpine agrees offer for Raine

By Andrew Taylor, Construction Correspondent

Alfred McAlpine, the construction group, yesterday launched an agreed all-share offer for Raine, valuing the rival house builder at about £42m ($68m).

The deal, accompanied by a £28.9m rights issue, will make the enlarged group the UK's seventh largest house builder.

The purchase is the latest in a spate of sector takeovers fostered by a rising housing market. Planning restrictions, which have made it difficult and expensive to purchase UK development sites, have also encouraged corporate acquisitions.

McAlpine is offering one share for every 6.85 Raine shares. PDFM, the fund manager which owns 19.4 per cent of Raine, said it would accept the offer, as did Raine directors owning a further 0.4 per cent. PDFM will also subscribe to the rights issue in respect of its 20.8 per cent McAlpine stake.

The construction group is offering two convertible loan stock shares at 142p each for every seven ordinary shares. The loan stock will be converted into ordinary shares.

McAlpine shares fell 13½p to 153½p, while Raine's rose 2p to 20p, below the offer price, worth about 22p.

Row looms over future of digital TV

By Raymond Snoddy

A huge row over the future of digital terrestrial television in the UK may be in prospect following a decision by United News & Media, owner of Anglia and Meridian Television and The Express newspaper, to become a conditional shareholder in one of the bidders for frequencies.

Digital terrestrial television will allow 30 to 50 channels to be received on ordinary aerials with no need for satellite dishes or cable.

If Digital Television Network wins one or more of the three commercial "multiplexes" or blocks of frequencies, United would invest up to £120m ($194m) for a 30 per cent stake. In its application to the Independent Television Commission, which will decide on the successful bidder, DTN said there was no other participant in the bid and no plans for anyone to have an interest of more than 5 per cent. Until now DTN had only one shareholder, NTL, formerly International CableTel, the cable television and broadcasting services company.

British Digital Broadcasting, which brings together British Sky Broadcasting, the Granada Group and Carlton Communications, has been widely seen as the favourite to win the three multiplexes. It suggested yesterday that there could be a case for seeking judicial review if DTN was awarded multiplexes.

Lord Hollick, chief executive of United, is believed to have tried at one point to join the BDB consortium.

The UK is the first country to push ahead with launching digital terrestrial which involves broadcasting digital signals from hill-top transmitters.

Pru to oppose Pirc move

By Leyla Boulton, Environment Correspondent

Prudential, Britain's largest life assurance company, said yesterday that it would vote against a resolution demanding that the Royal Dutch/Shell oil group take tougher action on environmental and ethical issues.

The decision by the oil group's biggest institutional investor suggests that the resolution sponsored by Pirc, the campaigning pension investment advisory service, has little chance of being passed at Shell's annual meeting on May 14.

Sir Martin Jacomb, Prudential chairman, also rejected demands made by environmental protestors at its annual meeting that it put pressure on Shell to pull out of the Global Climate Coalition, a US lobby group which is wary of rapid action to fight climate change. He was responding to questions put to him at the meeting by environmental and ethical campaigners from the World Development Movement and Friends of the Earth, whose banners accused Shell of causing "climate hell".

Ashley Ashwood

Friends of the Earth protesters outside the Prudential's AGM yesterday

British Petroleum pulled out of the coalition last year, while some insurance companies have publicly criticised the coalition's doubts about global warming, which they increasingly see as a threat to their business.

But Sir Peter Davis, chief executive, said the Pru did not have as much at stake in the climate change debate as property insurers.

Turning to the separate issue of the Pirc resolution, Sir Martin said it ran the danger of diluting the responsibility of the Shell board for policy-making.

Pirc has tried to convince institutional investors in the City to support its resolution, which has the backing of local authority pension funds and other Pirc clients. But the Association of British Insurers said it expected that its members would vote against the resolution.

Although Shell says it shares the goals of the Pirc resolution, it has refused to embrace two of its main demands: that Shell employ external auditors to verify its environmental report and policies, and that it apply the same environmental and social standards worldwide.

A sweet, starchy taste that soon turned sour

Maggie Urry finds Tate & Lyle's problems extend from North America to emerging markets

Ask Mr Larry Pillard, Tate & Lyle's chief executive, whether the group's North American starch problems do not seem rather familiar and he ripostes with the old joke, "it's *deja vu* all over again".

Tate's interim results on Wednesday suggest the group is facing a further fall in annual pre-tax profits this year, after last year's drop from £311m to £276m ($447m). The half year outcome was hit by a £83.2m exceptional charge, but even before that operating profits fell from £185.9m to £129.8m in the period to March 29.

At the pre-tax level, profits were down from £168.2m to £30.4m. A large part of the downturn was because of lower North American starch profits.

In spite of a strong recovery in sugar profits from the region, North American operating profits fell from £78.8m to £69.2m, before an exceptional charge of £18.6m.

Mr Pillard is well-placed to comment on the starch business. Tate's 1988 acquisition of Staley, a high fructose corn syrup (HFCS) producer, which turns maize into sweeteners largely for soft drinks, started well but soon turned sour.

By 1992 Staley's profits were falling and Mr Pillard was headhunted by Tate to run it. Before that he had spent most of his career with Cargill, the huge private US group which is a leading competitor to Staley. "I've been in this industry 28 years," Mr Pillard said, "and I've seen this happen at least three times".

But this time round, he argues, it is not *deja vu* once more. After five years under Mr Pillard, Staley is in far better shape than most of its competitors. And while others suffer losses, or at least sharp profit falls, Staley is still making a return on assets not far short of 10 per cent, he claims.

The problem with the North American HFCS industry is simple: while demand grows by a steady 4 per cent or so a year, capacity comes on stream in larger steps. A burst of plant building is followed by a period of over-capacity before demand grows sufficiently to fill it.

Whenever there is over-capacity, the soft drinks companies see their chance to negotiate lower prices and profits tumble. Last year, the price weakness was exacerbated by high corn prices, squeezing Staley's margins from both sides at once.

The answer, according to Mr Pillard, was first, to become the lowest cost producer, and second, to find other markets for its production.

The first was achieved in part through a bitter two-year labour dispute, and the workforce has halved since Mr Pillard arrived.

Costs, other than corn, have fallen by 25 per cent since 1991.

Staley has reduced its dependence on HFCS, while sales for other food uses and to industrial customers such as paper-makers have grown.

Mr Pillard admits that an industry like HFCS, is "not going to turn round on a dime", but he seems confident that the worst of the overcapacity is over.

Shareholders must hope that Mr Pillard is right about Staley. Since last November he has been chief executive of the whole group. Since then he has been learning more about the rest of Tate's business, and it was his "critical review" of the group which generated the exceptional charge.

A concern to the market was the £34.9m provision against investments in emerging markets. Tate has long said that its investments in new, faster growing markets would bring rich rewards, although with greater risks. Mr Simon Gifford, finance director, said Tate had "always expected casualties along the way".

Those risks have crystallised with the write-down of assets in Ukraine, where the cane sugar refinery has been closed, China, where imports are undercutting local producers, and Bulgaria, where starch production ceased several weeks ago because customers had no money to pay for supplies.

Meanwhile in Russia, a £10.9m loss reflected falling sugar prices which hit the value of trading stock.

As Sir Neil Shaw, chairman, commented: "Tate operates in cyclical markets". But he believes a combination of strong market positions and low cost production would produce "satisfactory returns overtime".

Shareholders must believe there are fatter years to come if they are to endure the lean years Tate is currently suffering.

CONTRACTS & TENDERS

BUSINESSES FOR SALE

BUSINESSES FOR SALE

MANAGEMENT

Old structure ends in tiers

Big Japanese companies are thinking again about uniform pay systems, says William Dawkins

Cracks are appearing in the monolithic structure of Japanese pay scales, a consequence of a shift in management culture from respect for the group to the promotion of individuals.

A national trend has begun away from uniform pay systems and towards the recognition that individuals are – and should be encouraged to be – different. It is a response to the fact that Japan's salarymen are competing in increasingly global markets against companies staffed by more independent-minded corporate warriors.

Salaries have traditionally been based on age, a natural feature of the life-time employment system. But now a growing number of companies is examining short-term contracts, merit pay and share options.

The latest example of this significant break in Japan's postwar ethic has emerged from an unlikely quarter – Matsushita, the world's largest consumer electronics group, which recently unveiled the first multi-tier pay structure in Japan.

"We want to attract staff who have some independence and have more specialist skills to enable us to meet the increasingly different needs of the marketplace," says Deborah Lamascos of Matsushita.

The company is renowned for a conservative management style which has caused mischievous critics, perhaps unjustly, to nickname it *Maneshita*, Japanese for imitator. In fact, Matsushita is, in a quiet way, a trendsetter in Japanese personnel management. It was, for example, in 1965 the first Japanese company to introduce a five-day working week when six-day working was the norm.

The new multi-tier pay scheme is a departure from the usual practice of paying people on more or less the same scale, based on academic qualifications and duration of service.

The system, says a company memo, aims to build a "new relationship between individuals and company" and to attract independent-minded staff with "individuality and specialised skills," able to respond to the company's increasingly diverse needs.

Matsushita's new system is an experiment in response to demands from the company union, but it has been received enthusiastically by the management. The company is eager to enhance its attraction to graduates at a time when Japan's low birthrate is starting to create a shortage of skilled staff. The new pay scales will begin with next April's batch of new recruits, who will be offered three choices of pay structure.

Under the first option, they can elect for the existing system. This is structured much like national average pay, under which, according to the labour ministry, basic pay accounts for just over 70 per cent of the total, company performance-related bonuses make up 23 per cent, and overtime just under 6 per cent. On top of that, Matsushita offers fringe benefits such as low-interest home loans and grants for the purchase of company shares plus – like all other Japanese companies – a retirement payment equivalent to one month's pay per year worked in addition to a pension.

The advantage of this system is that pay is highly geared to the company's performance. So companies such as Matsushita can trim costs in tougher times by cutting bonuses, but without resorting to cutting jobs. The flaw is that employees may find that pay fluctuates too much for comfort.

Hence option two, under which newcomers would get a sum equal to the expected retirement payment in the form of annual bonuses spread out over their career in return for surrendering the right to the payment at the end of their career. They would continue to be entitled to fringe benefits. Matsushita estimates this would be worth Y240,000 (£1,176) a year on top of a basic monthly starting pay of up to Y250,000, or Y3m a year. This is available to all recruits.

Option three, available only to people with specialised skills, such as graduates or staff with previous experience, would allow newcomers to draw a basic wage plus a sum equivalent to retirement allowance and fringe benefits. That would be worth Y350,000 a year for those earning up to Y250,000 per month – but beneficiaries are not allowed to take out company loans or grants.

Matsushita believes no other Japanese company has introduced a multi-tier pay system, although there has been a recent move to offer different conditions for different kinds of employees.

For example, Matsushita has been signing up a small number of foreigners on renewable multi-year contracts for the past six years, and specialised research staff on such contracts for the past two years. Toyota, Japan's top car producer, set up a separate career stream four years ago for staff who want to work with the group for only a short time.

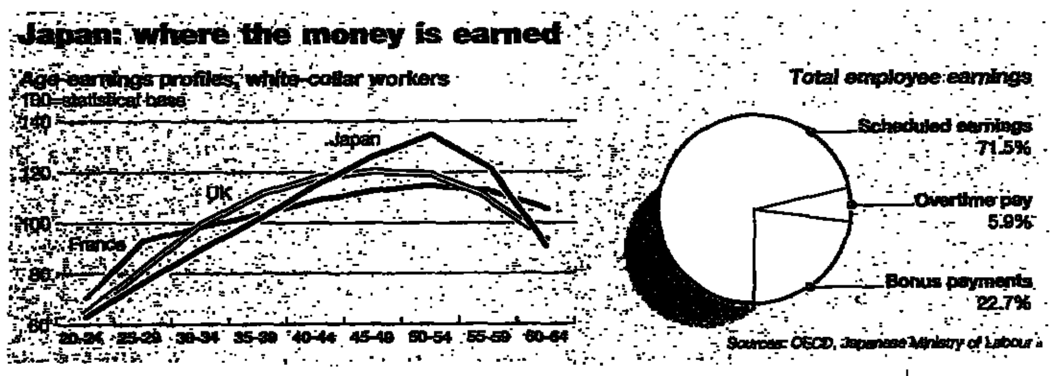
Merit-based pay, part of the same trend, is also on the increase. Sony, the electronics group, and Honda, the carmaker, both run formal merit-based pay systems, while Mitsubishi Corporation, the general trading company, is discreetly increasing the disparities in pay between good and poor performers at managers' discretion.

In another deviation from the tradition of uniform pay for all, in recent months a number of companies have announced plans for share option schemes. They include Daiwa Securities, Toyota and Orix, the leasing group. A change in the law which in effect bans share options is possible next spring, after which the planned schemes could begin.

At the moment only a handful of companies, the elite multinationals, are experimenting with ways to use pay to attract or stimulate individual initiative. But the results of these experiments are being studied very closely by other Japanese managers.

As Yotaro Kobayashi, chief executive of Fuji Xerox, the US-Japanese office equipment company, puts it: "We have blinded ourselves for years in saying that we have been better employers than anyone else in that we haven't laid people off. But have we provided the opportunities to make the best of ourselves?"

Japan: where the money is earned



Sources: OECD, Japanese Ministry of Labour

COMPETITION

As an appetiser for the FT Mastering Finance series which starts on Monday, we invite you to test your wits against other readers of the Financial Times and win two return Club Class tickets to New York or Chicago, donated by British Airways.

Your goal is to choose a number between zero and 100 that you think will be the closest possible to two thirds of the average number chosen by all respondents to the competition. For example, suppose five people enter the contest and they choose 10, 20, 30, 40 and 50. In this case the average is 30, two thirds of which is 20. The person who wrote 20 on their postcard would win.

The contest will be discussed – and the winner announced – in an article on behavioural finance by Richard Thaler, a professor at the University of Chicago Graduate School of Business. This will appear in Issue 6 on June 16.

HOW TO ENTER:

- Choose a round number between zero and 100 and complete the tie breaker.
- Send your entry on a postcard including your name, address and daytime telephone number to: Mastering Finance, Financial Times, Number One Southwark Bridge, London SE1 9HL.
- Closing date for receipt of entries is Wednesday May 21st, 1997.
- The winner will be the person who has chosen the number closest to two thirds of the average.

TIE BREAKER

Please describe in no more than 25 words the thought processes you went through in arriving at your number.

- The Financial Times will next Monday launch a new 12-part weekly series called Mastering Finance.

Written by senior academics from the Wharton School of the University of Pennsylvania, the University of Chicago Graduate School of Business, and London Business School, the series will offer a mix of theory and practical wisdom on a wide range of corporate finance, financial markets and investment management topics.

Mastering Finace is the third "Mastering" series published by the FT in co-operation with leading international business schools, and follows Mastering Management and Mastering Enterprise.

Mastering Finance

Terms and conditions:

- Entries on a postcard should be sent to Mastering Finance, Financial Times, Number One Southwark Bridge, London SE1 9HL. The closing date for entries is Wednesday May 21. Please clearly state your name, address, and daytime telephone number.
- All incomplete or illegible applications will be disqualified. No responsibility is accepted for entries lost, damaged or delayed in the post. Proof of posting is not proof of receipt.
- By entering the competition the entrant will be deemed to have read and understood the rules of which the instructions form part, and to be bound by them.
- This competition is open to all readers over the age of 18 and resident in the UK, other than employees of the Financial Times or immediate families, or any agency, or any other person directly associated with this competition.
- Only one entry per household, (multiple entries will be disqualified) Prizes will be awarded to the entry with the correct answer and in the event of a tie, to the respondent with what the judges consider the best answer to the tie breaker.
- The prize is for two return Club World airline tickets from London to New York or Chicago. Both passengers must fly together for outward and return journeys. The prize is subject to availability and must be taken before December 31 1997.
- The prize does not include accommodation, meals, transfers, insurance, airport tax, or any other expenses. There is no cash alternative and the prizes cannot be transferred. The Financial Times decision is final and no correspondence will be entered into.
- The prizewinner will be notified within 28 days of being selected.

Details of the winner are available after the closing date on receipt of a stamped addressed envelope marked "Mastering Finance winners" at the application address.

Mastering Finance will only appear in the UK and continental Europe, for subscriptions please fax orders with credit card number to: +44 171 537 3594, £30 for 12 issues.

THE PROPERTY MARKET

Centre of savings

Mark Suzman on the merits of the serviced office

For any company relocating or opening new offices, the process of finding suitable property and then sorting out equipment and services is an irritating and often expensive task.

Basic costs and charges are supplemented by extras ranging from office administration and building services to telephone, fax and computer installations all of which can also consume large amounts of scarce management time.

But while such costs may be necessary for any large-scale or long-term move, increasingly companies with smaller, short-term and medium-term office space needs are turning to fully serviced business centres as an alternative.

Such centres have traditionally been particularly useful for small businesses or salespeople who spend little time in the office, but need a respectable address, secretarial help and a telephone as a base.

But with the revolution in information technology and the growing strength of service companies in the 1990s, the business centre is starting to prove popular with bigger companies.

Mr Nick Otten, director of MWB Business Centres, part of the Marylebone Warwick Balfour property group, says growth in this area has been very rapid.

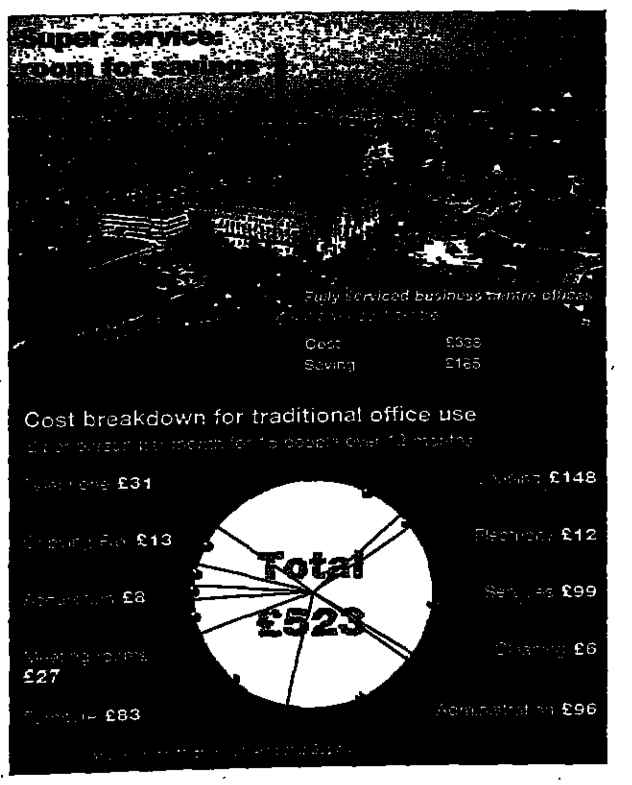
"The concept and benefits of serviced office facilities are becoming well established in this country as more and more companies recognise the importance of flexibility without long-term commitment," he says.

Serviced business centres vary in size, often comprising several floors in a well-located building which can then be adapted into various configurations.

Rentals tend to take place on short-term flexible agreements making them particularly attractive for companies with overspill requirements or multinationals wanting immediate space for rapid product launches.

The time saved in such an arrangement is obvious. However, a new study by the Chartered Institute of Purchasing and Supply suggests they provide good value for money, too.

Sponsored by Regus, one of the global leaders in the provision of serviced office space, the research compared costs for conventional space procurement and office parks in two areas of the UK: the City of London and central Birmingham.



Mr Tony Shelley, author of the report and director of Purchasing and Materials Management Services, a purchasing consulting and training group, concluded that the latter "provide substantial short and medium-term cost savings over conventional office leases".

To make comparisons as fair as possible, the study estimated conventional requirements on 10 expense factors: floorspace rental, business services, office administration, electricity, telephone rental, photocopying and fax rentals, office clearing, the provision of meeting/board rooms and acquisition cost.

Apart from electricity and telephone, costs from at least two suppliers were obtained and resale value at the end of the lease – which would allow purchase costs to be offset against residual value – was accounted for.

The savings were particularly dramatic for very short leases. For example, the study calculated that a five-person office using a fully serviced business centre for three months could achieve a 33 per cent saving on conventional office leases.

Even longer stays still proved cost-effective, but with diminishing returns: after six months the savings would be 21 per cent and for 12 months they would be just 11 per cent.

Savings were also more pronounced in Birmingham (see illustration) than London, suggesting centres are better value in low cost areas. For example, if 10 people rented a fully serviced business office in Birmingham, savings after one month were 82 per cent on conventional procurements. Even after a year, they still amounted to 44 per cent.

There are drawbacks, however. The study found that even fully serviced leases can contain hidden extra costs such as redecoration, equipment service and repairs – or even some unforeseen capital expenditure requirements which given the generally short lease periods cannot be amortised economically.

Nevertheless, having built up his company from nothing just eight years ago to more than 130 centres in some 30 countries, Mr Mark Dixon, Regus managing director, believes the research shows why he is right to be bullish on future prospects.

"Office management is going to be like IT and facilities management, with companies increasingly keen to outsource and get value for money," he predicts.

Services offered at business centres now include personalised telephone answering, messages to home, voice mail and e-mail. Fax services and video-conference ready boardrooms are also increasingly common.

Particularly attractive are furnished areas with laser faxes, copiers, PC and desktop publishing capabilities.

Location is also important, particularly proximity to big transport hubs – MWB, for example, is shortly to launch the Heathrow Business Exchange, with six floors of serviced offices very close to the airport.

Critics warn that while the market may still have some upside, its long-term prospects are limited as companies will tend to outgrow the serviced sector and set up their own office.

But with most new users concentrated in high growth industries, Dixon shrugs off such concerns, convinced there is still substantial scope for expansion.

With some pilot schemes already under way, he is particularly optimistic about potential for larger groups – including requirements for 100 or more people – turning to the serviced market in the future.

"More and more businesses are going to find it easier to use operations like ours and these kind of centres could easily grow to 20 per cent of the A-grade office market over the next decade," he predicts.

Rally continues in Polish Bradys

By Edward Luce in London and Christopher Bobinski in Warsaw

Poland was the centre of attention in the international bond markets yesterday. Polish Bradys continued to rally following the $1.69bn Brady buy-back on Wednesday, while a rare zero-coupon zloty-denominated bond was the only issue in an exceptionally quiet euromarket.

Emerging markets analysts said that the success of Poland's Brady operation had boosted its chances of being awarded a credit rating upgrade later this year.

Although the Brady market yesterday regained some of the ground that was lost on Wednesday, Polish Brady bonds remained the star performers.

The spread of strip Bradys over long Treasuries has fallen by more than 30 basis points to 174 basis points since Tuesday's close. Polish Brady prices have risen by ¼ point over the same period, compared with a two-point drop in the cost of Brazilian Brady paper and a 1.65 point drop in Argentine Brady prices. Poland is rated BBB- by S&P and Baa3 by Moody's.

"It is probably a little ambitious to expect Poland to receive a credit upgrade before the parliamentary elections in September," said Mr Richard Gray, chief emerging markets economist at Bank of America. "A lot depends on how Poland's forthcoming eurobond issue performs."

The IFC issued a 100m zloty bond yesterday which is to be repaid in dollars after two years. ING Barings, the sole arranger, issued the zero-coupon bond at the re-offer price of 70 per cent of its face value. Officials said they expected the issue to be taken up mostly by continental European retail investors after the holiday. In the unlikely event that the zloty remained at its current rate of 3.15 to the US dollar, investors would get a return of 19.5 per cent on the paper when it expired in May 1999.

"For all intents and purposes, this is the same as a eurozloty issue except that it is redeemed in dollars," an official said. "The main difference is that IFC is getting a slightly wider investor base."

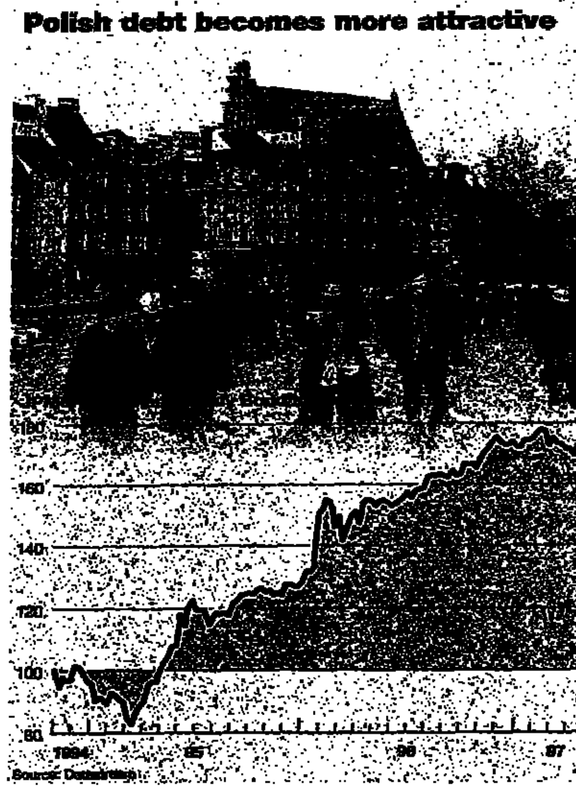
Meanwhile, Bank Polska, which is controlled by Rabobank, of the Netherlands, said yesterday it would be issuing 100m zlotys worth of two-year bonds locally. The bonds, which are to be placed privately, are being guaranteed by Rabobank in the Netherlands.

The issue, which will carry a coupon of one per cent below the central bank's rediscount rate (currently 22 per cent), is to be managed by Raiffeisen C and I Polska, the Austrian bank's local subsidiary. The funds will be used to finance credit and commercial activities.

• Euroclear, the world's largest securities clearing and settlement system, is reducing safe-keeping fees on international bonds by 10 per cent, saving its customers about $20m.

The cut reflects savings from a renegotiation of common depositary fees, related to primary market distribution of issues between Euroclear and Cedel, the other big European clearing bank.

Polish debt becomes more attractive



Source: Datastream

IBCA to maintain sovereign ceilings

By Samer Iskandar

IBCA, the European credit rating agency, said its sovereign ceiling would continue to be the highest possible rating for borrowers based in a country.

The statement contrasts with a decision by Standard & Poor's, the US agency, to award some corporations ratings that are higher than that of the country they are based in.

IBCA recognises the theoretical possibility that a government might default on its obligations while continuing to allow the private sector to service its debt without imposing controls.

However, it said: "The chances of this occurring are substantially less than assumed by S&P's two-notch rating difference between the government and the better banks and corporates."

S&P last month upgraded a number of Argentine borrowers, some to "investment grade" status, as part of a new approach to sovereign risk. The US agency said: "Sovereign credit risk now is less a factor affecting ratings of issuers in certain dollarised economies."

IBCA said "analysts have traditionally regarded dollarisation as a source of weakness, because it reflects the lack of trust savers have in their own currency".

IBCA also clarified its policy towards countries participating in European economic and monetary union. It said it would retain the sovereign ceilings "until the system has proved itself to be durable". However, after January 1999 the local currency ratings of Emu members will be aligned with foreign currency ratings.

CAPITAL MARKETS NEWS DIGEST

Croatian group signs $150m loan

Industrija Nafte (INA), the Croatian oil and gas company, this week signed a five-year $150m syndicated loan, the first time a Croatian industrial company has raised money on the syndicated loan market and the first time that any Croatian institution – other than the government – has borrowed for a maturity of five years.

The terms of the deal reflect increasing interest among banks for higher yielding eastern European and other emerging market credits. INA is paying 87.5 basis points over Libor for the facility.

Other Croatian borrowers have also benefited from the trend. Zagrebacka Banka, the country's largest bank in terms of asset size, is paying 50 basis points over Libor for a DM300m three-year loan expected to go into general syndication in the next three to four days.

The INA facility was increased from an original amount of $100m owing to strong demand from banks. Bankers Trust is co-ordinating arranger, while Bank Austria, Dresdner Bank and Union Bank of Switzerland are also arrangers. Lazard Brothers advised the borrower.

INA will use the money to refinance more expensive existing debt, owed mainly to local banks, to upgrade refinery operations and a network of petrol stations and for more general corporate purposes.

The company is the country's largest employer and accounted for approximately 10 per cent of Croatian GDP in 1996. BZW, Chase Manhattan, Dai-Ichi Kangyo, and Dresdner Bank Luxembourg arranged the facility for Zagrebacka. *Richard Lapper*

Regent Pacific Balkan fund

Regent Pacific, the emerging market investment house which is floating on the Hong Kong stock market, is promoting a new fund dedicated to the Balkans, Slovenia and Croatia.

Regent, which has some $1.8bn under management and is well known for its investment activities in Russia and the Ukraine, aims to raise between $50m and $100m for its new Balkan Fund. Aimed at professional and institutional investors, the fund will be domiciled in the Cayman Islands and is scheduled to close on May 23. It will invest in debt but will focus mainly on the region's equity markets.

Some 40 per cent of the money raised will be spread between Bulgaria, Slovenia and Croatia, according to Mr Julian Mayo, a director, while about half will be channelled to Romania, where privatisation is expected to lead to an increase in the number of private companies. Regent is targeting sectors such as cement, infrastructure, chemicals and agriculture, from which it expects Romania's future "blue chip" companies to emerge, Mr Mayo explained.

At present some 26 shares are listed on the Bucharest Stock Exchange, which reopened in 1995, and between 2,000 and 3,000 stocks are traded on the over-the-counter market. The country's mass privatisation programme involves the sale of 4,000 companies. *Richard Lapper*

Gilts jump despite retail sales data

GOVERNMENT BONDS

By Samer Iskandar in London and Jane Martinson in New York

UK gilts yesterday resumed their rally, showing the best performance among the few European markets not closed for Ascension Day.

In London, the June long gilt future rose 19/32 to settle at 113 13/16, then managed to jump another [illegible]/32 in after hours electronic trading. In the cash market the 10-year benchmark gilt closed ¾ higher at 101¾.

Traders said bullish sentiment had allowed the market to ignore the Confederation of British Industry distributive trades survey, which showed retail sales growing in April at the fastest rate in five months.

"There is no substance to the rally," said Mr Simon Briscoe, chief UK economist at Nikko Europe. "The main driving force in the market was the rising prospect for Emu membership."

Mr Briscoe believes the bullish undertone could narrow gilts' yield spread over bunds towards the 100 basis point mark. "Gilts are enjoying a convergence trade for the first time," he said.

Italian bonds ended a quiet session slightly lower in the wake of a weaker US market. In London, the June BTP future lost 0.25 to close at 128.98, but recouped this loss in after-hours trading.

US Treasuries had regained a little of the ground lost in Wednesday's sell-off by mid-session.

The 30-year benchmark bond rose 11/16 to 96 15/32, its yield falling to 6.931 per cent.

Prices were supported by the Federal Reserve's purchase of five and 10-year notes earlier than expected in the morning.

The market also reacted well to monthly figures indicating that the number of people out of work was higher than expected.

Yields dropped slightly across the curve, with two-year notes yielding 6.323 per cent and the 10-year bond 6.729 per cent.

Earlier in the day, prices had fallen further because of concerns about a weaker dollar and worries about interest rate increases. The decline followed losses earlier in the week after two bond auctions received a lukewarm reception.

Traders said that bond prices were likely to be volatile until the meeting of the Federal Reserve's Open Market Committee on May 20.

"It's going to trade with every piece of information that comes out," said Mr John Spinello, government securities strategist at Merrill Lynch. "There are going to be a lot of conflicting buying and selling signals while all eyes are going to be on what the Fed will do on May 20."

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	93.0371	+0.002	7.80	7.79	8.02
Austria		5.750	04/07	0.0000	-	0.00	5.82	5.86
Belgium		6.250	03/07	0.0000	-	0.00	5.94	6.02
Canada *		7.000	12/06	102.5500	-0.420	6.63	6.59	6.66
Denmark		8.000	03/06	0.0000	-	0.00	6.42	6.69
France	BTAN	4.750	03/02	0.0000	-	0.00	4.75	4.86
	OAT	5.500	04/07	0.0000	-	0.00	5.75	5.82
Germany Bund		6.000	01/07	0.0000	-	0.00	5.82	5.93
Ireland		8.000	08/06	108.7500	-0.010	6.70	6.67	6.94
Italy		6.750	02/07	96.2100	-0.090	7.30†	7.50	7.80
Japan	No 145	5.500	03/02	116.8497	-0.250	1.74	1.58	1.55
	No 182	3.000	09/05	103.3874	-0.610	2.51	2.33	2.30
Netherlands		5.750	02/07	0.0000	-	0.00	5.64	5.78
Portugal		9.500	02/06	118.8000	-	6.60	6.71	7.00
Spain		7.350	03/07	104.4600	+0.060	6.70	6.81	7.10
Sweden		8.000	08/07	0.0000	-	0.00	7.31	7.37
UK Gilts		7.000	06/02	100-06	+7/32	6.94	7.13	7.36
		7.250	12/07	101-12	+12/32	7.06	7.40	7.83
		9.000	10/08	114-14	+13/32	7.13	7.49	7.72
US Treasury *		6.250	02/07	96-15	-9/32	6.75	6.69	6.87
		6.625	02/27	95-31	-8/32	6.95	6.93	7.05
ECU (French Govt)		7.000	04/06	0.0000	-	0.00	6.08	0.00

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.34
Prime rate	8½	Two month	-	Three year	6.50
Broker loan rate	7¾	Three month	5.23	Five year	6.62
Fed.funds	5⅞	Six month	5.55	10-year	6.76
Fed.funds at intervention	-	One year	5.93	30-year	6.95

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000 (May 7)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	129.52	129.52	+0.04	129.66	129.46	70,743	152,669
Sep	128.00	127.98	+0.04	128.06	127.94	1,393	10,590
Dec	97.54	97.40	-0.08	97.54	97.54	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF) (May 7)

Strike Price	CALLS Jun	CALLS Jul	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Sep
127	2.54	1.52	1.95	0.07	0.59	1.02
128	1.67	0.88	1.34	0.19	0.94	1.40
129	0.86	0.45	0.87	0.39	1.51	1.92
130	0.30	0.19	0.53	0.82	-	-
131	0.07	0.05	0.29	1.59	-	-

Est. vol. total, Calls 4,034 Puts 16,013. Previous day's open int., Calls 109,804 Puts 152,302.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	101.59	101.71	-0.05	101.90	101.31	105885	261956
Sep	100.50	100.71	-0.04	100.54	100.37	4399	24295

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
10150	0.50	0.38	0.60	0.77	0.29	1.17	1.39	1.56
10200	0.25	0.24	0.42	0.59	0.54	1.53	1.71	1.88
10250	0.10	0.15	0.29	0.44	0.89	1.94	2.08	2.23

Est. vol. total, Calls 20404 Puts 26780. Previous day's open int., Calls 202615 Puts 242021

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	129.00	128.98	-0.25	129.28	128.71	35402	112576
Sep	129.09	129.27	-0.23	129.30	129.09	356	6701

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
12850	0.98	2.53	0.50	1.76
12900	0.89	2.24	0.71	1.97
12950	0.46	1.98	0.98	2.21

Est. vol. total, Calls 2587 Puts 2184. Previous day's open int., Calls 112001 Puts 119804

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	114.36	114.73	+0.14	114.77	114.21	85,176	79,992
Sep	113.52	113.94	+0.14	113.90	113.52	392	1,106

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113-02	113-26	+0-19	114-03	112-26	110194	200381
Sep	113-09	114-03	+0-20	114-03	113-09	194	4583

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
113	1-12	1-56	2-16	2-36	0-20	0-50	1-10	1-30
114	0-38	1-18	1-45	2-00	0-46	1-12	1-39	1-58
115	0-15	0-56	1-16	1-34	1-23	1-50	2-10	2-28

Est. vol. total, Calls 11673 Puts 4474. Previous day's open int., Calls 90580 Puts 31457

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000 (May 7)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	95.08	95.18	+0.16	95.20	95.04	22	5,973
Sep	-	94.80	+0.16	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	109-10	109-09	-0-01	109-11	108-30	350,586	485,140
Sep	108-28	108-29	-0-01	108-29	108-17	5,040	64,729
Dec	-	108-18	-	-	-	6	9,888

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	123.96	-	-	124.12	123.76	4885	n/a
Sep	122.62	-	-	122.75	122.42	1113	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Thu May 8	Day's change %	Wed May 7	Accrued interest	xd adj. ytd		Low coupon yield May 8	May 7	Yr. ago	Medium coupon yield May 8	May 7	Yr. ago	High coupon yield May 8	May 7	Yr. ago
1 Up to 5 years (19)	120.43	0.11	120.39	2.26	4.23	5 yrs	6.93	6.98	7.61	6.99	7.06	7.63	7.05	7.10	7.74
2 5-15 years (21)	154.31	0.42	153.66	3.52	3.12	15 yrs	7.10	7.16	8.29	7.12	7.18	8.32	7.10	7.23	8.40
3 Over 15 years (6)	180.46	0.51	179.56	5.67	3.16	20 yrs	7.15	7.21	8.35	7.13	7.18	8.38	7.10	7.23	8.46
4 Irredeemables (5)	209.49	0.44	208.56	4.98	2.37	Irred.†	7.29	7.33	8.39						
5 All stocks (51)	148.00	0.34	147.54	3.44	3.64										

Index-linked							Inflation 5% May 8	May 7	Yr. ago	Inflation 10% May 8	May 7	Yr. ago
6 Up to 5 years (2)	204.55	-0.06	204.67	0.61	3.03	Up to 5 yrs	3.31	3.29	2.66	2.70	2.67	1.30
7 Over 5 years (10)	197.19	-0.38	197.95	1.53	2.32	Over 5 yrs	3.58	3.54	3.79	3.38	3.35	3.59
8 All stocks (12)	196.90	-0.35	197.59	1.43	2.37							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	May 8	May 7	May 6	May 2	May 1	Yr ago	High*	Low*
Govt. Secs. (UK)	96.59	96.64	96.80	94.65	94.43	91.85	96.80	93.31
Fixed Interest	119.29	119.19	118.83	117.31	117.21	111.50	120.18	115.32

Gilt Edged Activity Indices

	May 7	May 6	May 2	May 1	Apr 30
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974. Gilt Edged volume data will be unavailable until the end of May.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on May 8

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	97½	97¾	-⅛	7.02
Spain 7¼ 03	4000	110⅜	110½		5.14
Abbey Natl Treasury 8 03 £	1000	102⅝	102¾	+⅜	7.43
[illegible]					

(Remaining entries: U.S. dollar straights, Swiss franc straights, yen straights, other straights, Deutsche Mark straights, floating rate notes and convertible bonds — [illegible])

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)							
Treas Cnv 7pc 1997‡‡		6.98	6.23	100⅟₃₂	—	101⅛	100⅛
Treas 8¾pc 1997‡‡		8.68	6.21	100¾	—	107	100
Exch 15pc 1997		14.43	6.41	103	-⅛	114	102
Exch 9¾pc 1998		9.53	6.47	102	+⅛	106	100
Treas 7¼pc 1998‡‡		7.20	6.54	100⅝	—	109	100
[illegible]							

(Remaining UK gilts entries: shorts, five to fifteen years, over fifteen years, undated, index-linked and other fixed interest — [illegible])

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption rates on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for August 1996: 153.1 and for March 1997: 155.4.

CURRENCIES AND MONEY

Market nerves hit pound and dollar

MARKETS REPORT

By Simon Kuper

Sterling lost nearly 5 pfennigs against the D-Mark yesterday, its fall sparked by an unsourced report that the UK was considering rejoining the European exchange rate mechanism. The pound was expelled from the ERM in September 1992.

The report, on the Bridge News service on Wednesday night, quoted an unnamed member of the ruling Labour party as saying that the UK would reenter the mechanism at a rate of DM2.50 to the D-Mark.

The UK Treasury said the report held no truth "at all". "The government has no intention of rejoining the ERM," it said. But the rumour nonetheless prompted a slide in the pound, which was fuelled by profit taking and a falling dollar. A sharp rise in UK retail sales for April was all but brushed aside. Sterling dropped 4.7 pfennigs against the D-Mark to close in London at DM2.767 yesterday.

The dollar fell for the third day running, hit by a rise in Japanese market interest rates and fresh comments suggesting that Japan might intervene in the market to weaken the US currency.

Mr Eisuke Sakakibara, a senior Japanese ministry of finance official known to traders as "Mr Yen", told a parliamentary committee that it was "theoretically possible" for the yen to fall as low as Y103 against the dollar this year, on the basis that it had moved by an average of Y23 annually against the dollar for the last decade. Asked about Japanese investment into foreign assets, he said: "I'm worried that people are investing without thorough consideration to currency risks."

But Mr Sakakibara and Mr Tadashi Ogawa, vice finance minister, both said later that Y103 had not been a forecast for dollar/yen.

The market reacted strongly to Mr Sakakibara's comments, partly because it has long been worried that Japan and the US might intervene against the dollar.

The dollar lost Y1.1 against the yen and 1.3 pfennigs against the D-Mark, closing in London at Y123.8 and DM1.707. It has retreated 2.5 pfennigs and Y3 since Tuesday's London close.

The Swiss franc rose SFr1.8 against the dollar to SFr1.442, and firmed to SFr0.845 against the D-Mark.

■ Most in the market thought that the ERM rumour in the UK and Mr Sakakibara's comments in Japan were not enough to explain the slide in the dollar and pound. Mr Michael Paulus, vice president and manager at the Bank of America in New York, suggests another reason why the Anglo-Saxon currencies fell and the yen and Swiss franc rose. The markets, he says, expect the yield gap to shrink.

For a long time Swiss and Japanese yields were almost non-existent, while those in the UK and the US were the highest in the western world. However, this week's surge in gilts has reduced UK yields, while recent US economic data, particularly last week's non-farm payrolls figures, have hinted at a slowdown. The Federal Reserve's Beige Book late on Wednesday noted no signs that the tight US labour market was leading to consumer price inflation.

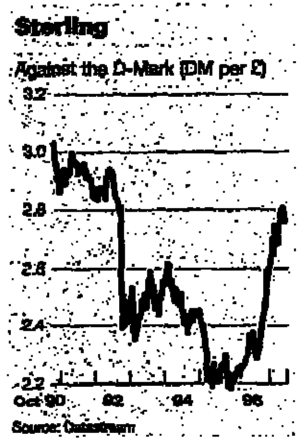
Meanwhile the perceived outlook for Japan has become healthier, and Japanese bond yields rose this week. The Swiss franc has arguably benefited from the growing belief that the UK might join European monetary union in the second round. That would leave Switzerland as the one European "safe haven" from doubts over Emu.

■ The rumour that sterling would rejoin the ERM at a rate of DM2.50 to the D-Mark was dismissed by currency strategists as far too specific. Mr Kit Juckes, strategist at NatWest Markets in London, said: "The Labour government would like to see sterling in the ERM. It would like to see sterling in the ERM at as competitive a level as it could plausibly manage. But that's as far as it goes."

Some strategists suggested the rumour had been expanded upon by that vast section of the market that is long on sterling. Mr Juckes said the currency had been volatile for the last week and would continue to be so while the new government's policy was unclear in various areas.

Sterling

Against the D-Mark (DM per £)



Source: Datastream

■ Pound in New York

May 8	— Latest —	— Prev. close —
£ spot	1.6205	1.6145
1 mth	1.6197	1.6157
3 mth	1.6180	1.6120
1 yr	1.6122	1.6065

■ OTHER CURRENCIES

May 8	£	$
Czech Rp	49.4436 - 49.5197	30.5170 - 30.5470
Hungary	293.483 - 293.727	181.140 - 181.190
Iran	4863.30 - 4880.50	3000.00 - 3000.00
Kuwait	0.4914 - 0.4922	0.3033 - 0.3036
Poland	5.1077 - 5.1138	3.1525 - 3.1545
Russia	9322.63 - 9331.05	5754.00 - 5756.00
U.A.E.	5.9502 - 5.9545	3.6725 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

May 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	[illegible]											103.5
Belgium	(BFr)	[illegible]											103.3
Denmark	(DKr)	[illegible]											106.1
Finland	(FM)	[illegible]											82.3
France	(FFr)	[illegible]											106.2
Germany	(DM)	[illegible]											104.9
Greece	(Dr)	[illegible]											65.5
Ireland	(I£)	[illegible]											99.1
Italy	(L)	[illegible]											76.3
Luxembourg	(LFr)	[illegible]											103.3
Netherlands	(Fl)	[illegible]											103.0
Norway	(NKr)	[illegible]											98.8
Portugal	(Es)	[illegible]											94.3
Spain	(Pta)	[illegible]											78.0
Sweden	(SKr)	[illegible]											84.2
Switzerland	(SFr)	[illegible]											105.0
UK	(£)	[illegible]											98.8
Ecu	-	[illegible]											-
SDR†	-	[illegible]											-
Americas													
Argentina	(Peso)	[illegible]											-
Brazil	(R$)	[illegible]											-
Canada	(C$)	[illegible]											84.7
Mexico	(New Peso)	[illegible]											-
USA	($)	[illegible]											104.8
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]											97.9
Hong Kong	(HK$)	[illegible]											-
India	(Rs)	[illegible]											-
Israel	(Shk)	[illegible]											-
Japan	(Y)	[illegible]											122.7
Malaysia	(M$)	[illegible]											-
New Zealand	(NZ$)	[illegible]											114.3
Philippines	(Peso)	[illegible]											-
Saudi Arabia	(SR)	[illegible]											-
Singapore	(S$)	[illegible]											-
South Africa	(R)	7.2435	-0.0479	391 - 479	7.2948	7.1885	-	-	-	-	-	-	-
South Korea	(Won)	1448.05	-18.62	380 - 251	1456.81	1443.58	-	-	-	-	-	-	-
Taiwan	(T$)	44.8677	-0.5207	147 - 207	45.1510	44.7378	-	-	-	-	-	-	-
Thailand	(Bt)	42.2504	-0.4132	224 - 783	42.4710	42.0430	-	-	-	-	-	-	-

† Rates for May 7. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	12.0183	-0.0838	145 - 221	12.1200	12.0050	11.9958	2.2	11.9471	2.4	11.6983	2.7	103.2
Belgium	(BFr)	35.2450	-0.245	300 - 600	35.5720	35.2250	35.17	2.6	35.015	2.6	34.275	2.6	103.1
Denmark	(DKr)	6.4995	-0.0464	985 - 005	6.5622	6.4985	6.4878	2.2	6.463	2.2	6.351	2.3	105.2
Finland	(FM)	5.1594	-0.0189	569 - 619	5.2038	5.1453	5.1475	2.8	5.1231	2.8	5.0149	2.8	81.9
France	(FFr)	5.7619	-0.0389	607 - 630	5.8081	5.7600	5.7502	2.4	5.7275	2.4	5.6124	2.6	105.5
Germany	(DM)	1.7075	-0.0119	070 - 080	1.7235	1.7070	1.7038	2.6	1.6961	2.7	1.6592	2.8	104.3
Greece	(Dr)	271.705	-1.385	630 - 780	273.750	270.700	272.59	-3.9	274.13	-3.6	280.405	-3.2	65.3
Ireland	(I£)	1.5108	-0.0001	083 - 133	1.5115	1.5042	1.5101	0.5	1.5095	0.3	1.5063	0.3	-
Italy	(L)	1689.50	-11.45	890 - 010	1704.50	1688.87	1691.4	-1.3	1694.1	-1.1	1696.38	-0.4	75.9
Luxembourg	(LFr)	35.2450	-0.245	300 - 600	35.5720	35.2250	35.17	2.6	35.015	2.6	34.275	2.8	103.1
Netherlands	(Fl)	1.9215	-0.0127	210 - 220	1.9388	1.9210	1.9174	2.6	1.9088	2.6	1.8683	2.8	102.6
Norway	(NKr)	7.0839	-0.0391	829 - 849	7.1400	7.0808	7.0668	2.9	7.0412	2.4	6.9154	2.4	98.1
Portugal	(Es)	171.775	-1.05	750 - 800	172.500	171.750	171.76	0.1	171.695	0.2	170.385	0.8	94.7
Spain	(Pta)	144.225	-0.82	200 - 250	145.520	144.180	144.225	0.0	144.148	0.2	142.89	0.9	77.6
Sweden	(SKr)	7.7098	-0.0263	073 - 123	7.7802	7.6938	7.7005	1.5	7.6798	1.6	7.5853	1.6	83.7
Switzerland	(SFr)	1.4425	-0.0164	420 - 430	1.4616	1.4420	1.4376	4.0	1.4279	4.0	1.3821	4.2	104.1
UK	(£)	1.6207	-0.0158	202 - 211	1.6310	1.6124	1.6199	0.6	1.6182	0.6	1.6124	0.5	100.1
Ecu	-	1.1395	+0.0057	390 - 399	1.1400	1.1310	1.1409	-1.5	1.1443	-1.7	1.1619	-2.0	-
SDR†	-	0.729871	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0649	-	647 - 650	1.0650	1.0645	-	-	-	-	-	-	-
Canada	(C$)	1.3831	+0.0019	826 - 833	1.3847	1.3812	1.3801	2.6	1.3746	2.5	1.3556	2.0	84.8
Mexico	(New Peso)	7.9270	+0.0135	230 - 310	7.9310	7.9230	8.0355	-16.4	8.237	-15.6	9.232	-16.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	106.0
Pacific/Middle East/Africa													
Australia	(A$)	1.2831	-0.0065	827 - 835	1.2872	1.2825	1.2835	-0.4	1.2836	-0.2	1.2826	0.0	99.9
Hong Kong	(HK$)	7.7460	-	455 - 465	7.7465	7.7450	7.747	-0.2	7.7485	-0.1	7.7585	-0.2	-
India	(Rs)	35.8570	-0.01	420 - 720	35.8750	35.8400	35.947	-3.0	36.232	-4.2	34.037	5.1	-
Israel	(Shk)	3.4008	+0.0001	969 - 047	3.4054	3.3967	-	-	-	-	-	-	-
Japan	(Y)	123.795	-1.05	770 - 820	125.350	123.450	123.24	5.4	122.135	5.4	117.235	5.3	122.5
Malaysia	(M$)	2.5075	-0.003	070 - 080	2.5127	2.5060	2.5097	-1.1	2.5139	-1.0	2.5308	-0.9	-
New Zealand	(NZ$)	1.4593	-0.0011	588 - 599	1.4628	1.4580	1.4601	-0.7	1.4625	-0.9	1.4726	-0.9	-
Philippines	(Peso)	26.3675	+0.005	500 - 850	26.3850	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7506	3.7504	3.7508	-0.1	3.7513	-0.1	3.7542	-0.1	-
Singapore	(S$)	1.4443	-0.0019	438 - 448	1.4461	1.4434	1.4426	1.4	1.4385	1.6	1.4168	1.9	-
South Africa	(R)	4.4695	+0.014	680 - 710	4.4795	4.4580	4.509	-10.6	4.5865	-10.5	4.8845	-9.3	-
South Korea	(Won)	893.500	-1.5	000 - 000	896.000	891.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.6850	-0.05	600 - 100	27.7260	27.6550	27.6856	0.0	27.687	0.0	27.6913	0.0	-
Thailand	(Bt)	26.0700	-	600 - 800	26.0900	26.0430	26.1313	-2.8	26.255	-2.8	26.825	-2.9	-

† SDR rate per $ for May 7. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 7: Base average 1990=100.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (May 7)

[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

[illegible]

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

[illegible]

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

[illegible]

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 8		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.43	16.35	4.844	1.879	4793	5.452	20.10	487.4	409.1	21.87	4.093	1.751	3.925	2.838	351.2	2.469
Denmark	(DKr)	54.25	10	8.868	2.628	1.019	2600	2.957	10.90	264.4	221.9	11.86	2.220	0.950	2.129	1.539	190.5	1.350
France	(FFr)	61.17	11.28	10	2.963	1.149	2932	3.335	12.29	298.1	250.3	13.38	2.504	1.071	2.401	1.736	214.8	1.523
Germany	(DM)	20.64	3.806	3.375	1	0.388	989.5	1.125	4.149	100.6	84.46	4.514	0.845	0.361	0.810	0.586	72.50	0.514
Ireland	(I£)	53.23	9.814	8.703	2.579	1	2552	2.902	10.70	259.5	217.8	11.64	2.179	0.932	2.089	1.511	187.0	1.325
Italy	(L)	2.086	0.385	0.341	0.101	0.039	100.	0.114	0.419	10.17	8.535	0.456	0.085	0.037	0.082	0.059	7.327	0.052
Netherlands	(Fl)	18.34	3.382	2.999	0.889	0.345	879.3	1	3.687	89.40	75.05	4.011	0.751	0.321	0.720	0.521	64.42	0.457
Norway	(NKr)	49.76	9.172	8.134	2.410	0.935	2385	2.713	10	242.5	203.6	10.88	2.037	0.871	1.953	1.412	174.7	1.239
Portugal	(Es)	20.52	3.782	3.354	0.994	0.385	983.5	1.119	4.124	100.	83.94	4.486	0.840	0.359	0.805	0.582	72.05	0.511
Spain	(Pta)	24.44	4.506	3.996	1.184	0.459	1172	1.332	4.912	119.1	100.	5.344	1.000	0.428	0.959	0.694	85.84	0.608
Sweden	(SKr)	45.73	8.431	7.476	2.215	0.859	2192	2.493	9.191	222.9	187.1	10	1.872	0.801	1.795	1.298	160.6	1.139
Switzerland	(SFr)	24.43	4.504	3.994	1.183	0.459	1171	1.332	4.910	119.1	99.96	5.342	1	0.428	0.959	0.693	85.80	0.608
UK	(£)	57.12	10.53	9.338	2.767	1.073	2738	3.114	11.48	278.4	233.7	12.49	2.338	1	2.242	1.621	200.6	1.422
Canada	(C$)	25.48	4.697	4.165	1.234	0.479	1221	1.389	5.120	124.2	104.2	5.571	1.043	0.446	1	0.723	89.47	0.634
US	($)	35.24	6.496	5.761	1.707	0.662	1689	1.921	7.082	171.7	144.2	7.705	1.442	0.617	1.383	1	123.8	0.877
Japan	(Y)	28.47	5.249	4.655	1.379	0.535	1365	1.552	5.723	138.8	116.5	6.226	1.166	0.499	1.118	0.808	100.	0.709
Ecu		40.17	7.405	6.567	1.948	0.755	1925	2.190	8.073	195.8	164.3	8.783	1.644	0.703	1.577	1.140	141.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5832	0.5862	+0.0031	0.5865	0.5818	16,275	83,739
Sep	0.5896	0.5890	+0.0020	0.5900	0.5890	200	3,510
Dec	-	0.5935	+0.0024	0.5935	-	84	341

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8043	0.8117	+0.0072	0.8142	0.8020	28,484	77,552
Sep	0.8200	0.8221	+0.0067	0.8240	0.8200	539	1,957
Dec	0.8332	0.8332	+0.0084	0.8332	0.8332	30	720

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6876	0.6930	+0.0052	0.6954	0.6868	15,649	43,913
Sep	0.6984	0.7012	+0.0065	0.7026	0.6984	113	2,269
Dec	0.7060	0.7080	+0.0060	0.7085	0.7075	60	438

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6138	1.6226	+0.0050	1.6300	1.6076	17,434	38,413
Sep	1.6130	1.6190	+0.0042	1.6320	1.6100	42	1,066
Dec	1.6100	1.6160	+0.0036	1.6160	1.6080	11	109

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

UK clearing bank base lending rate 6¼ per cent from May 6, 1997

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

BASE LENDING RATES

[illegible]

COMMODITIES AND AGRICULTURE

Metals show strong gains in London

MARKETS REPORT

By Kenneth Gooding and Susanna Voyle

London Metal Exchange traded metals showed strong price rises yesterday, as did precious metals in London. Traders said investment funds were heavy buyers.

Zinc recorded the biggest rise among the LME metals, with three-month zinc up 3.7 per cent to the highest level for 4½ years.

Zinc prices have moved up 30 per cent this year but Mr Nick Moore at Flemings Global Mining Group said: "The zinc story is fundamentally based; this isn't hocus-pocus. It is a genuinely tight market. We think zinc could peak this time next year at $1,873 a tonne."

In a special metal report, Ms Karen Norton and Mr Angus MacMillan, analysts at Billiton Metals, a subsidiary of Gencor of South Africa, say the outlook for zinc has improved considerably in recent months and investment funds have anticipated the impact on the market a growing supply deficit will have.

They suggest zinc demand will outpace supply by 250,000 tonnes this year, after a supply deficit of 224,000 tonnes in 1996, and look for another deficit of 120,000 tonnes in 1998.

They have lifted their forecasts for zinc for immediate delivery on the LME, suggesting it will average $1,278 a tonne this year and $1,455 in 1998.

The Billiton analysts have also revised upwards their price forecasts for copper and aluminium.

Of the copper market they say: "For the moment confusion reigns as a combination of nearby tightness, chart-based trading and uncertainty about the near term fundamentals push prices this way and that."

The timing of Chinese buying in coming months remains a key factor and low LME stocks makes the market vulnerable to more squeezes. They are forecasting copper will average $2,248 a tonne this year and $1,873 in 1998.

Billiton suggests that "fundamental developments have been supportive for aluminium, in that consumer restocking has resulted in a sustained drawdown in stocks, but production is rising steadily and we are forecasting a market in rough balance for the year as a whole."

It forecasts aluminium will average $1,585 a tonne this year and $1,720 in 1998.

Nickel rose nearly as strongly as zinc on the LME yesterday, showing a 3.1 per cent rise to $7,800 a tonne for three-month metal.

New York-led fund buying helped lift London gold prices by $3.05 a troy ounce by the close to $343.90. Silver rose 10 cents an ounce to $4.84, while platinum was up $4.25 at $376.50 an ounce.

Oil prices rallied, with crude prices in London following New York higher. Dealers said the market regarded news that Opec was likely to leave its output ceiling unchanged as neutral.

Mr Abdullah Salem al-Badri, the Opec president and Libyan oil minister, said he expected the group to stick with its 25.03m barrels per day output quota when it met next month.

Early yesterday afternoon, Brent blend for June delivery was trading up 13 cents at $18.29 a barrel, having earlier touched $18.32. However, in late trading the price jumped to $18.62.

Wool prices expected to remain firm

By Nikki Tait in Sydney

Wool prices should remain firm in the next couple of quarters, but the longer-term progress of the market will depend heavily on European retail demand and the extent to which China participates in the market.

According to the latest quarterly report from the International Wool Secretariat, the wool textile pipeline has improved significantly in western Europe on the back of renewed demand and in the wake of heavy destocking in 1996.

But the IWS warns that "the key to sustaining this recovery will be retail sales in the forthcoming autumn/winter season".

"After a difficult 1996 in Japan, Germany and Italy, retail prospects for 1997 remain mixed. The outlook is for a cautious recovery in 1997," it says.

The IWS report coincides with a sharp increase in wool prices. The benchmark Australian eastern market indicator price ended last week at 678 cents a kg clean, up 19 cents on the week. This is the highest price for almost two years, and reflects an increase of about 15 per cent in the eastern indicator over the past four months.

The "wool to synthetics" price ratio has also reached its highest level since the third quarter of 1990.

The IWS says while Asian demand overall was "steady" during the March quarter, it was the upturn in western Europe that drove the market. In particular, "continued strong orders" allowed both combers and weaving yarn spinners to cut stocks.

"Western Europe's demand for raw wool should improve further this quarter as combers meet the anticipated increase in top orders," it forecasts.

But the IWS also warns that the test will come later in 1997, as retail demand shapes up for the northern hemisphere winter.

A fairly low level of offerings at Australian auctions may also have contributed to the price improvement, and analysts calculate that one-fifth of total demand was probably met from stocks.

Meanwhile, China was also active at auctions. China has been the largest single customer for Australian wool in recent years, but its retreat from the market in 1995 was partly responsible for a sharp price drop.

The IWS warns that China remains a wild card: "A large number of state-owned mills are continuing to experience financial difficulties. Some of these mills are reported to have ceased operations or slowed raw material purchases in order to reduce high levels of output stocks."

Accordingly, Chinese demand could be "very volatile" over the next few months, it says.

Australia accounts for about 30 per cent of world wool production.

● Santos, the Adelaide-based energy group, has discovered a new gas field in the South Australian section of the Copper/Eromanga basins, in the north-east of the state.

Gas flowed at the Goyder 2 exploration well at 154,300 cubic metres a day from reservoir sands, over an interval from 1,887m to 1,904m, Santos said. The gas flow was accompanied by 43 cubic metres of condensate a day.

Santos shares rose 10 cents to A$5.23 on yesterday's news.

Soyabeans fall on news of slim exports

By Laurie Morse in Chicago

Traders sold soyabean futures on the Chicago Board of Trade yesterday in response to news that US export sales of the oilseed were slim last week, but analysts said the fall in sales was expected, and that much of the price decline came as commercial traders took profits from long positions.

The US sold 8.8m tonnes of soyabeans in the week ended May 1, far below the more robust figures the trade has been accustomed to. Soyabean prices have risen sharply since January as it became clear that brisk demand by importers and domestic processors will absorb nearly all the available supplies by the end of the marketing year.

"There was a little negative tone on the trading floor because the traders there looked at the export (sales) report, saw it was lower, and said, 'OK, we've got the price up so high no one is willing to buy any more,'" said Mr Joe Victor, an analyst with the Chicago-based consulting firm Allendale.

However, according to analysts, US weekly export sales and shipments figures remain overheated with 16 weeks left in the marketing year, even though they have shown a sharp fall-off recently. Even at the current sales pace, US soyabean exports will outstrip US Department of Agriculture export estimates, Mr Victor said.

Chicago Board of Trade wheat futures prices levelled off yesterday after slipping for most of the week. News that US corn plantings are ahead of schedule may signal the start of a record crop, traders said. A big coarse-grains harvest would hit US demand for low-quality wheat for animal feed.

Traders said private assessments of frost-stricken winter wheat fields in Kansas and Oklahoma were now putting losses in that region close to 250m bushels, below the 300m estimated shortly after the April 12 freeze. The USDA will give the market its first view of the US winter wheat production situation in a regular report on May 12.

CBOT wheat futures opened lower as the price of soyabeans fell.

Wheat also struggled early, with the USDA's weekly export sales figures coming in below expectations. The USDA put weekly export sales at 176,200 tonnes. That figure was a touch below trade expectations for 200,000 to 300,000 tonnes. However, prices then rose – prompted, traders said, by expectations that the Kansas hard red winter wheat crop will produce sub-par yields because of the mid-April freeze.

But floor sources noted the Wheat Quality Council tour of Kansas pegged state-wide yield potential 32.6 bushels per acre, above last year's estimate but below 1995 figures. Trade was thin and choppy as the market awaited the USDA's winter wheat output figures, due on Monday.

● The board of directors of the CBOT has re-affirmed its support for controversial corn and soyabean delivery location changes, the exchange said yesterday.

At a special board meeting held on Wednesday, the directors also voted against an interim plan proposed by the Commodity Futures Trading Commission that would reinstate Toledo as a delivery point.

Glyn Genin

Brisk: traders at the Chicago Board of Trade yesterday took profits on their long positions in soyabean futures

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1647-48	1668-69
Previous	1614.5-15.5	1642-43
High/low		1673/1663
AM Official	1642-43	1665-65.5
Kerb close		1669-70
Open int.	280,143	
Total daily turnover	105,253	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1480-90	1505-10
Previous	1485-90	1510-12
High/low		1525/1510
AM Official	1485-90	1510-12
Kerb close		1505-10
Open int.	5,615	
Total daily turnover	2,243	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	620.5-1.5	632-3
Previous	612-4	623-5
High/low		642/632
AM Official	624.5-5	635-5.5
Kerb close		636-7
Open int.	35,468	
Total daily turnover	11,734	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7690-700	7798-800
Previous	7445-55	7560-65
High/low		7810/7680
AM Official	7625-30	7740-45
Kerb close		7770-80
Open int.	48,410	
Total daily turnover	21,124	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5855-65	5890-900
Previous	5735-45	5770-80
High/low		5910/5820
AM Official	5830-35	5850-55
Kerb close		5900-10
Open int.	18,615	
Total daily turnover	5,249	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1302-03	1323-24
Previous	1255.5-56.5	1277-78
High/low		1331/1299
AM Official	1304.5-05.5	1324-24.5
Kerb close		1330-31
Open int.	87,434	
Total daily turnover	43,903	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2458-60	2396-97
Previous	2408-10	2353-54
High/low	2443	2404/2370
AM Official	2442-43	2378-79
Kerb close		2387-88
Open int.	132,889	
Total daily turnover	46,478	

Precious Metals continued

ENERGY

PRECIOUS METALS

GRAINS AND OIL SEEDS

SOFTS

MEAT AND LIVESTOCK

LONDON TRADED OPTIONS

FUTURES DATA

All futures data supplied by CMS.

Wool

After rising to new seasonal peaks last week the Australian market fell back at this week's auctions. The main market indicator declined from 678 Australian cents to 660 cents on May 8 and the pace of decline though never sharp did tend to increase daily. New Zealand, not for the first time this year, moved in the other direction, continuing last week's rise. The market indicator there rose another 10 NZ cents to 448 cents. As the end of the main wool-selling season approaches, the nature of the wool on offer can make a difference – and New Zealand's was predominantly second shear wools of speciality use. Currency volatility affects prices everywhere, and in the UK a burst of sterling strength affects calculations from day to day. Varying holidays in Europe, with the wool market decline, have kept demand subdued.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 8	May 7	month ago	year ago
1966.3	1973.8	1956.0	2138.1

■ CRB Futures (Base: 1967 = 100)

May 7	May 6	month ago	year ago
246.61	246.04		

■ GSCI Spot (Base: 1970 = 100)

May 7	May 6	month ago	year ago
195.58	194.76	187.10	210.26

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,350	to	782,575
Aluminium alloy	+480	to	218,895
Copper	+950	to	152,925
Lead	-200	to	113,500
Nickel	-180	to	50,142
Zinc	-550	to	430,250
Tin	-80	to	11,135

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.90-7.98	+0.065
Brent Blend (dated)	$18.37-8.39	+0.47
Brent Blend (Jun)	$18.60-8.62	+0.43
W.T.I.	$20.23-0.25z	+0.44

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$206-208	+2
Gas Oil	$171-173	+0.5
Heavy Fuel Oil	$78-80	+1
Naphtha	$173-175	-0.5
Jet fuel	$186-189	
Diesel	$179-181	

■ NATURAL GAS (Pence/therm)

Bacton (May)	10.8-10.9	+0.3

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Jun)	10.800	+0.23

■ OTHER

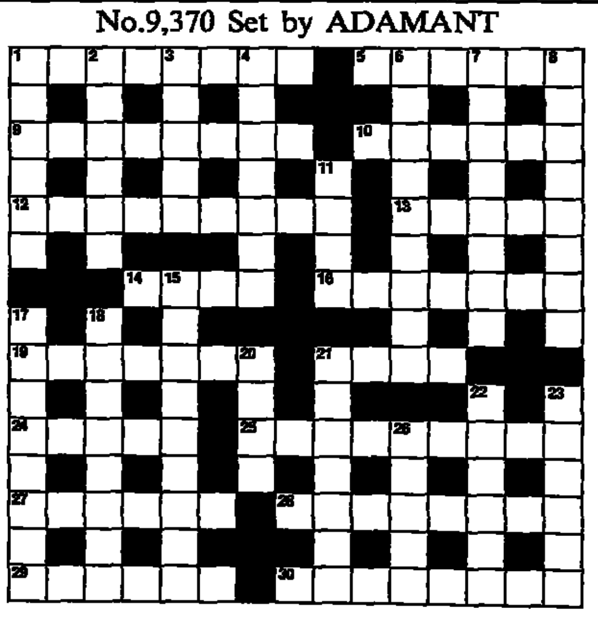
Gold (per troy oz)♣	$344.20	+2.90
Silver (per troy oz)♣	475.25c	+0.25
Platinum (per troy oz.)	$376.50	+3.50
Palladium (per troy oz.)	$157.60	+2.60
Copper	117.0c	+2.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.23r‡	
Tin (New York)	270.5	-0.5
Cattle (live weight)	91.11p	+1.67*
Sheep (live weight)	138.74p	+5.91*
Pigs (live weight)†	108.13p	-8.26*
Lon. day sugar (raw)	$268.60	-2.00
Lon. day sugar (wte)	$315.50	-1.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	68.50p	
Rubber (Jul)♥	69.50p	
Rubber (KL RSS No1)	273.5x	
Coconut Oil (Phil)§	675.0y	
Palm Oil (Malay.)§	560.0z	-2.5
Copra (Phil)§	$442.5y	
Soyabeans (US)	232.0	
Cotton Outlook'A' Index	78.85c	+0.10
Wooltops (64s Super)	418p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w May y May/Jun♥ z Jun London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,722 head of pigs sold. ‡Kuala Lumpur Tin price was unavailable from source between 17/4 and 8/5

JOTTER PAD

CROSSWORD

No.9,370 Set by ADAMANT



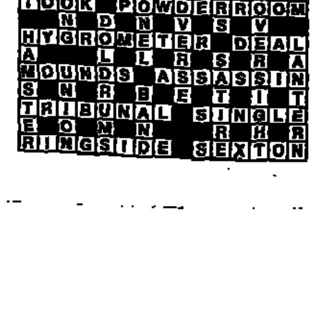
ACROSS

1 Mockery of fellow holding back 'is anger (8)
5 One with a habit of initially driving the detective inspector into action (6)
9 On the other side in the French game (8)
10 Well, the Beaujolais for example could cause puffy joint (6)
12 Cancellation of vows distresses nun in mental torment (9)
13 Stand taken by artist might comfort lawyers initially (5)
14 Honest note about the game (4)
16 Daughter is wrong to screw up (7)
19 Spray a looser mixture (7)
21 Passing fancy for Ecstasy should die out (4)
24 We object to being surrounded by his cooked food (5)
25 Flirting with duke before the engagement (9)
27 Bishop in test of family loyalty (6)
28 Altruistic identity in smaller quantity (8)
29 First increase? (6)
30 Way to encourage production of fish (8)

DOWN

1 Money for party notedly slowing up (6)
2 Withdraw statement about Conservative worker (6)
3 Steals up to the chair (5)
4 Died on the set – how indecent! (7)
6 Pessimistic newspapermen going into action (9)
7 One who takes interest in gold on underwear (8)
8 Harmonious relationship as heavyweight came down to earth at central gym (8)
11 Having no yen for bookwork, boss? (4)
15 Send down from college to the CIA's utter confusion (9)
17 Wrong time to have raised voice (8)
18 Standing for priest's conversion and return, for example (8)
20 Long day at work for her (4)
21 Hazel might be flirt, unfortunately (7)
22 Take over the eastern wing (6)
23 Someone going through the issue (6)
26 Get the impression there's no leaving hell (5)

Solution 9,369



هكذا من الأجل

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INSURANCE - Cont.

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or –	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£25	[illegible]	£31½	£20¼	1,815	3.0	ϕ
Barlow		653	+12	693	[illegible]	1,379	2.2	14.0
Gold Flds Prop R	†	136¼	+1¼	171½	120	14.2	8.5	10.3
SA Brews		£18½	[illegible]	£24¼	£13½	5,382	1.8	ϕ
Standard Bank		£25½	[illegible]	£31¼	£21	3,426	1.3	25.3
Tiger Oats		1085		1150	770	1,397	1.7	20.7
Tongaat-Hulett		762½	+7¼	1128	678¼	741.4	2.6	ϕ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
[illegible] Assumed dividend yield after rights issue.
[illegible] Assumed dividend yield after scrip issue.
[illegible] Rights issue pending
[illegible] Earnings based on preliminary figures.
[illegible] Dividend yield excludes a special payment.
[illegible] Indicated dividend yield, p/e ratio based on latest annual earnings.
[illegible] Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
[illegible] Dividend is paid in whole or part as a [illegible]

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT9660. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.95.
To order, call 0121 200 4679.
Reports published by ShareFinder.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.
Calls are charged at 50p per minute at all times.
An international service is available for callers outside the UK, annual subscription £250 stg.
Call 0171 873 4378 for more information on FT Cityline.
The share prices printed on these pages are also available on the internet at http//www.FT.com.

LONDON STOCK EXCHANGE

Big turnround sees Footsie race to record

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

An attempt by marketmakers, caught grievously short of stock in recent sessions, to drive the UK equity market lower yesterday came unstuck after a sudden burst of strength in gilts and a strong rally on Wall Street.

A sharp reversal of sentiment in gilts, amid a series of rumours about a re-entry of sterling into the Exchange Rate Mechanism, plus another startling show of strength on Wall Street, saw the FTSE 100 index suddenly bound ahead. It finished an erratic trading session 42.9 stronger at a record intra-day and closing high of 4,580.4. That performance extended the Footsie's run of gains to eight consecutive sessions, during which it has risen 210.7 points, or 2.3 per cent.

The closing performance was in sharp contrast to sentiment for much of the day. Marketmakers marked prices lower in the wake of a steep slide on Wall Street on Wednesday and following another profits warning from BTR, the UK's biggest conglomerate by market capitalisation.

As well as the influences emanating from the gilts and foreign exchange markets, there were other driving forces behind the equity market. One marketmaker confirmed that a series of "over-the-counter", or individually tailored derivative trades, had expired, putting considerable upside pressure on the stock market.

Those expiries coincided with the market's sudden upturn, causing unease among those marketmakers which had been caught short of stock.

The burst of strength in the leaders did not follow through into the second-liners and smaller stocks. The FTSE 250, which has stubbornly refused to match the 100 index's lead over the past eight sessions, fell 8.6 to 4,510.4. Over the same period, the 250 index has risen only 9.9 points. The SmallCap, down 3.3 yesterday, is up only 2.9 over the last eight trading days.

A sharp increase in trading volumes, pushing the market total up to 957.7m shares by 6pm, was inflated by a big bought deal in BTR. SBC Warburg, the Swiss-owned investment bank, bought a near 2 per cent stake in BTR and successfully placed it in the market, earning £2.9m in the process. The deal accounted for over 23 per cent of market activity.

Dealers said the banks and financial sector remained in the vanguard of the market's advance, with rather speculative takeover talk being accompanied by further frantic buying of the sector by marketmakers short of stock and the big institutions.

"It's still the Halifax effect that is behind the rises," noted one trader. He pointed to the latest surge by the Alliance & Leicester to a new record, a move which re-rates Halifax shares, scheduled for flotation next month. While Alliance & Leicester is not yet in the Footsie, the Halifax will automatically enter the leading index, meaning that tracker funds will have to buy other banks to get their sector weightings up.

With most European markets closed for Ascension Day, it was UK and US funds which were buying London stocks.

Indices and ratios

FTSE 100	4580.4	+42.9	FT 30	2947.0	-0.9
FTSE 250	4510.4	-8.6	FTSE Non-Fins p/e	18.67	18.65
FTSE 350	2226.2	+15.9	FTSE 100 Fut Jun	4584.0	+31.0
FTSE All-Share	2188.16	+14.26	10 yr Gilt yield	7.06	7.14
FTSE All-Share yield	3.51	3.53	Long gilt/equity yld ratio	2.02	2.05

Best performing sectors		Worst performing sectors	
1 Banks: Retail	+3.9	1 Diversified Inds	-6.7
2 Retailers: Food	+1.5	2 Gen Industrial	-1.0
3 Insurance	+1.4	3 Engineering: Vehicles	-0.5
4 Alcoholic Beverages	+1.1	4 Health Care	-0.5
5 Water	+1.0	5 Telecommunications	-0.5

BTR hit by new warning

By Joel Kibazo and Peter John

... but by far the most actively traded share of the day. An additional 18m was traded in BTR warrants while the stock was also active in the traded options sector.

The shares crashed to a 5 month low, closing 36½ ...

Then the 'flotation factor' kicked in again. Alliance & Leicester advanced to a post-flotation high as a shortage of the stock squeezed the shares up 41 to 626½p. And that focused investors' minds on the imminent flo- ...

... value, HSBC needs to do something. Royal Bank of Scotland, which is down on the same parameters and trading at about two times book would make an obvious target.

HSBC jumped 88 to ...

... shares. Bank of Scotland, which announced it had acquired a further 7.08m shares in Bank of Western Australia for A$18.35m to increase its stake to 53.05 per cent, lifted 14 to 410p. And Standard Chartered bene- ...

... company emerged as a potential equity partner in the Digital Television Network bidding for UK digital terrestrial television licences.

Analysts said the news increased the chances of ...

... yesterday.

Elsewhere in the sector, Premier league champions Manchester United dribbled 17½ lower to 621½p.

United News & Media moved up 13 to 755½p as the ...

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4522.0	4584.0	+31.0	4600.0	4522.0	15809	64444
Sep	4559.0	4616.0	+31.0	4575.0	4557.0	133	3528
Dec	4620.0	4657.0	+31.5	4620.0	4620.0	10	320

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Jun	4520.0	4530.0	-10.0	4530.0	4520.0	520	4891

FTSE GOLD MINES INDEX

Gold Mines Index (31)	1558.68	+2.2	1524.57	2382.86	2.18	-	2382.86	1488.60
■ Regional Indices								
Africa (14)	1733.86	-1.8	1766.68	3110.01	5.14	27.49	3197.52	1724.86
Australasia (6)	1757.55	-0.5	1765.89	2804.64	3.03	19.28	2844.14	1757.55
North America (11)	1491.98	+4.3	1430.49	2119.17	0.97	61.45	2126.45	1335.84

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 8	Day's chge%	May 7	May 6	May 2	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4580.4	+0.9	4537.5	4519.3	4455.6	3728.3	3.54	2.05	17.18	67.69	1946.31
FTSE 250	4510.4	-0.2	4519.0	4520.2	4498.1	4505.4	3.59	1.55	22.52	61.09	1873.67
FTSE 250 ex IT	4533.9	-0.2	4543.2	4544.2	4526.8	4547.6	3.72	1.58	21.35	63.31	1888.69
FTSE 350	2226.2	+0.7	2210.3	2203.3	2176.3	1892.2	3.55	1.95	18.02	32.35	1931.79
FTSE 350 Higher Yield	2155.3	+0.8	2138.0	2131.1	2111.1	1820.4	4.59	1.83	14.90	38.55	1583.48
FTSE 350 Lower Yield	2303.5	+0.6	2289.1	2282.0	2247.3	1971.3	2.49	2.19	22.92	25.64	1636.96
FTSE SmallCap	2301.60	-0.1	2304.85	2301.16	2295.52	2220.30	3.03	1.70	24.22	26.59	1945.24
FTSE SmallCap ex IT	2302.62	-0.2	2306.10	2302.07	2300.10	2217.21	3.25	1.78	21.65	26.63	1961.99
FTSE All-Share	2188.16	+0.7	2173.90	2167.26	2142.25	1877.75	3.51	1.94	18.37	31.30	1927.01

■ FTSE Actuaries Industry Sectors

	May 8	Day's chge%	May 7	May 6	May 2	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4196.92	......	4197.00	4196.32	4096.37	3475.58	3.53	2.02	17.08	70.49	1872.09
12 Extractive Industries(5)	4234.30	+0.5	4212.64	4197.82	4212.42	4714.86	3.72	2.38	14.10	104.80	1294.29
15 Oil, Integrated(3)	4334.35	-0.1	4340.28	4339.27	4212.84	3463.45	3.83	1.98	16.66	70.72	1985.92
16 Oil Exploration & Prod(12)	3456.19	+0.5	3436.87	3455.79	3429.06	2451.83	1.67	2.20	34.01	36.78	2116.80
20 GEN INDUSTRIALS(269)	1950.93	-1.0	1971.38	1966.52	1956.61	2129.24	4.10	1.91	16.00	29.57	1107.77
21 Building & Construction(35)	1393.16	+0.1	1392.34	1387.96	1387.46	1237.07	3.10	1.95	20.64	22.49	1209.58
22 Building Matls & Merchs(31)	1889.35	......	1889.52	1900.64	1892.97	1956.72	4.25	2.76	10.65	29.04	891.80
23 Chemicals(26)	2295.51	-0.2	2299.89	2254.70	2241.05	2531.49	4.57	1.46	18.73	39.07	1133.29
24 Diversified Industrials(16)	1407.77	-6.7	1509.33	1511.03	1488.48	1785.46	5.15	1.97	12.30	33.05	831.96
25 Electronic & Elect Equip(38)	2120.25	-0.3	2127.03	2104.89	2095.25	2403.84	3.71	1.58	21.55	13.11	1132.87
26 Engineering(69)	2519.55	+0.3	2512.15	2520.28	2508.31	2454.67	3.36	2.46	15.11	31.12	1577.83
27 Engineering, Vehicles(13)	2742.38	-0.5	2755.94	2749.30	2758.10	3024.01	4.06	‡	‡	38.40	1467.98
28 Paper, Pckg & Printing(27)	2332.05	-0.2	2335.58	2326.39	2329.14	2780.78	4.49	1.87	14.90	41.86	1011.39
29 Textiles & Apparel(14)	1066.58	+0.1	1065.18	1057.79	1062.42	1418.69	6.60	0.96	19.73	28.02	882.82
30 CONSUMER GOODS(84)	4373.30	+0.5	4352.90	4366.97	4326.52	3458.46	3.47	1.82	19.86	80.85	1686.31
32 Alcoholic Beverages(7)	2998.36	+1.1	2966.87	2971.13	2941.39	2834.55	4.38	1.89	15.12	62.64	1135.17
33 Food Producers(25)	2910.77	+0.2	2905.39	2908.32	2906.77	2481.62	3.79	1.84	17.86	56.21	1373.80
34 Household Goods(17)	3021.98	+0.3	3013.02	2985.21	2954.65	2705.12	3.43	2.30	15.80	53.41	1242.24
36 Health Care(15)	2209.72	-0.5	2219.97	2219.46	2220.73	2084.12	2.68	1.63	28.50	31.74	1385.05
37 Pharmaceuticals(18)	7052.34	+0.5	7015.55	7049.22	6976.74	4807.20	2.62	1.72	27.82	104.77	2475.72
38 Tobacco(2)	4424.89	+0.2	4414.41	4443.93	4345.50	4154.97	6.12	1.87	10.91	147.58	1177.85
40 SERVICES(271)	2691.66	+0.6	2676.96	2666.80	2636.98	2500.32	2.89	1.96	22.08	27.51	1442.39
41 Distributors(30)	2748.90	+0.5	2734.15	2730.47	2707.45	2937.34	3.33	1.94	19.34	38.25	1048.26
42 Leisure & Hotels(31)	3467.55	+0.5	3451.62	3410.28	3381.45	3209.03	2.63	1.77	26.81	56.92	1919.00
43 Media(44)	4398.70	+0.9	4361.10	4352.18	4289.96	4198.69	2.22	1.97	28.51	55.29	1632.14
44 Retailers, Food(15)	2095.15	+1.5	2063.70	2047.75	2024.54	1850.79	3.84	2.23	14.57	22.51	1379.66
45 Retailers, General(53)	2115.74	+0.3	2110.02	2108.66	2082.52	2036.38	3.15	2.07	19.13	14.93	1244.87
47 Breweries, Pubs & Rest.(22)	3326.95	......	3327.59	3322.38	3278.10	3125.16	3.31	2.08	18.21	18.26	1641.74
48 Support Services(54)	2935.27	-0.1	2937.50	2924.27	2896.43	2356.29	1.77	2.61	27.06	20.46	1909.36
49 Transport(22)	2804.57	+0.6	2788.30	2773.22	2761.61	2419.95	3.47	1.27	28.41	30.52	1212.04
60 UTILITIES(31)	2772.61	+0.2	2765.72	2754.00	2741.70	2456.87	4.87	1.55	16.56	16.92	1265.41
62 Electricity(9)	3036.74	+1.0	3006.75	2973.65	2951.50	2848.89	5.70	2.18	10.07	22.08	1677.32
64 Gas Distribution(2)	1579.62	+0.6	1569.53	1554.39	1621.68	1466.90	7.72	‡	‡	68.13	902.23
66 Telecommunications(8)	2313.57	-0.4	2323.06	2319.01	2295.16	2008.46	3.65	1.74	19.69	0.38	1092.38
68 Water(12)	2558.01	+1.0	2532.15	2538.62	2511.88	2131.09	5.82	2.33	9.22	0.00	1479.47
69 NON-FINANCIALS(675)	2202.85	+0.1	2200.46	2197.18	2174.81	2003.71	3.62	1.85	18.67	29.44	1740.83
70 FINANCIALS(106)	4310.47	+2.7	4196.80	4159.09	4091.50	2854.42	3.33	2.35	15.95	80.43	1942.19
71 Banks, Retail(8)	6474.23	+3.9	6231.23	6161.44	6080.41	3829.00	3.10	2.65	15.19	126.12	2215.05
73 Insurance(18)	1830.46	+1.4	1804.52	1796.64	1777.90	1499.09	4.71	2.30	11.53	43.53	1454.39
74 Life Assurance(7)	5028.91	+0.9	4981.76	4900.26	4830.83	3604.15	3.50	1.98	18.17	121.00	2198.64
77 Other Financial(29)	3217.74	-0.3	3227.54	3205.02	3171.48	2654.38	3.24	1.94	19.92	36.34	1902.61
79 Property(44)	1981.62	+0.8	1965.02	1934.97	1921.87	1571.09	3.22	1.31	29.68	13.53	1261.64
80 INVESTMENT TRUSTS(127)	3342.83	-0.1	3345.72	3343.82	3303.09	3217.46	2.19	1.14	50.03	24.23	1192.85
89 FTSE All-Share(908)	2188.16	+0.7	2173.90	2167.26	2142.25	1877.75	3.51	1.94	18.37	31.30	1927.01
FTSE Fledgling	1298.53	-0.1	1299.26	1300.81	1299.17	1241.46	3.01	0.79	52.65	14.76	1397.27
FTSE Fledgling ex IT	1317.15	-0.1	1317.99	1319.98	1319.95	1250.22	3.30	0.76	49.62	13.86	1418.26

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4521.8	4516.6	4537.1	4532.9	4531.6	4526.4	4528.2	4537.7	4568.6	4580.4	4517.6
FTSE 250	4501.4	4500.2	4503.8	4503.4	4502.7	4501.9	4502.2	4505.3	4509.2	4510.4	4499.5
FTSE 350	2202.5	2201.1	2208.7	2207.0	2206.4	2204.3	2205.0	2209.0	2221.5	2226.2	2200.7

Time of FTSE 100 Day's high: 4:30 PM Day's low: 9:11 AM. FTSE 100 1997 High: 4580.4 (08/05/97) Low: 3832.3 (24/12/96).

■ FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1274.1	1272.8	1279.8	1277.9	1277.7	1277.7	1277.1	1277.1	1277.9	1277.9	1274.9	+3.0
Pharmaceuticls	6884.5	6875.5	6910.1	6911.2	6923.1	6915.6	6917.4	6938.2	6962.7	6975.7	6938.3	+37.4
Water	2514.1	2519.9	2530.7	2533.3	2534.5	2532.8	2535.2	2543.8	2554.0	2554.4	2527.8	+26.6
Banks, Retail	6320.6	6331.5	6383.4	6367.2	6394.9	6404.8	6403.4	6431.1	6522.6	6556.9	6310.8	+246.1

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810.

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 7 / Sch)

BELGIUM/LUXEMBOURG (May 7 / Frs.)

CZECH REP (May 7 / Koruna)

DENMARK (May 7 / Kr)

FINLAND (May 7 / Mks)

FRANCE (May 7 / Frs.)

		+/-	High	Low	Yld	P/E
AGF	190	—	201.40	139.20	2.6	16.8
Accor	870	—	893	606	2.3	25.4
AirLiq	889	—	944	769	1.6	22.8
Alctel	647	—	695	369	1.5	38.8
ArjPri	1,650	—	1,749	1,200	1.4	—
Axa	383	—	383.10	282.80	2.1	21.9
BIC	892	—	980	562	1.2	38.8
BNP	242	—	279	171	2.2	13.0
Bncair	727xd	—	815	487.20	1.4	—
BFrare	279.70	—	301	159	1.4	16.8
Bongrn	2,270	—	2,830	1,985	2.7	13.4
Bygues	525	—	818	444.80	3.2	19.4
CGIP	1,780	—	1,848	1,118	3.2	—
Canal+	1,056	—	1,339	982	2.5	—

GERMANY (May 7 / Dm.)

GREECE (May 8 / Drachma)

ITALY (May 8 / Lira)

NETHERLANDS (May 7 / Fls.)

NORWAY (May 7 / Kroner)

POLAND (May 8 / Zloty)

PORTUGAL (May 8 / Escudo)

SPAIN (May 8 / Pts.)

SWEDEN (May 7 / Kronor)

SWITZERLAND (May 7 / Frs.)

TURKEY (May 8 / Tk Lira)

PACIFIC

JAPAN (May 8 / Yen)

HONG KONG (May 8 / H.K.$)

INDONESIA (May 7 / Rupiah)

MALAYSIA (May 8 / MYR)

NEW ZEALAND (May 8 / NZ $)

SINGAPORE (May 8 / S$)

AUSTRALIA (May 8 / AustS)

SOUTH KOREA (May 8 / Won)

TAIWAN (May 8 / TW $)

THAILAND (May 8 / Baht)

AFRICA

SOUTH AFRICA (May 8 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 8 / Can $) 4 pm close

MONTREAL (May 8 / Can $) 4 pm close

INDICES

	May 8	May 7	May 6	1997 High		1997 Low	
Argentina							
General(29/12/77)	(u)	21080.78	21356.90	21551.32	24/2	18237.37	2/1
Australia							
All Ordinaries(1/1/80)	2504.74	2517.8	2512.8	2517.80	7/5	2392.28	1/4
All Mining(1/1/80)	897.4	898.7	895.6	987.16	24/2	878.40	16/4
Austria							
Credit Aktien(30/12/84)	(c)	412.28	407.26	416.23	11/3	374.40	9/1
Traded Index(2/1/91)	(c)	1227.21	1217.47	1258.43	11/3	1130.22	9/1
Belgium							
BEL20(1/1/91)	(c)	2234.75	2253.87	2254.87	5/5	1871.05	2/1
Brazil							
Bovespa(29/12/83)	(u)	10180.0	10219.0	10219.09	6/5	0.00	29/4
Canada							
Metals Mins♦(1975)	(u)	5332.82	5370.32	5881.75	10/3	4945.86	11/4
Composite♦(1975)	(u)	6121.52†	6130.00	6332.89	10/3	5879.30	14/4
Portfolio§§(4/1/83)	(u)	3105.95	3115.48	3214.10	10/3	2946.02	11/4
Chile							
IGPA Gen♥(31/12/80)	(u)	5353.04	5366.82	5443.52	25/2	4812.42	2/1
Denmark							
CopenhagenSE(3/1/83)	(c)	555.48	554.45	558.48	7/5	470.14	2/1
Finland							
HEX General(28/12/90)	(c)	3002.04	3031.04	3031.04	6/5	2483.28	2/1
France							
SBF 250(31/12/90)	(c)	1770.47	1775.53	1815.36	10/3	1533.19	2/1
CAC 40(31/12/87)	(c)	2643.31	2651.93	2709.21	10/3	2256.97	2/1
Germany							
FAZ Aktien(31/12/58)	(c)	1212.12	1217.57	1217.57	6/5	986.21	2/1
Commerzbank(1/12/53)	(c)	3535.20	3570.6	3570.50	6/5	2875.90	2/1
DAX‡(30/12/87)	(c)	3531.88	3568.28	3568.28	6/5	2848.77	2/1
Greece							
Athens SE(31/12/80)	1544.47	1537.53	1519.48	1544.47	8/5	954.54	2/1
Hong Kong							
Hang Seng(31/7/64)	13740.30	13605.91	13579.34	13868.24	20/1	12055.17	3/4
India							
BSE Sens.(1979)	(c)	3758.50	3781.49	3944.61	4/3	3225.24	2/1
Indonesia							
Jakarta Comp.(10/8/82)	(c)	668.84	669.60	712.88	26/2	631.27	15/4
Ireland							
ISEQ Overall(4/1/88)	3170.00	3186.41	3198.06	3198.06	6/5	2725.07	2/1
Italy							
Banca Comm Ital(1972)	765.38	772.24	777.69	787.71	10/2	642.55	2/1
MIB General(2/1/97)	1152.0	1162.0	1170.0	1197.08	10/2	991.00	2/1
Japan							
Nikkei 225(16/5/49)	20061.81	20048.50	20180.92	20180.92	6/5	17303.65	10/1
Nikkei 300(1/10/82)	280.83	281.94	283.84	283.84	6/5	261.04	27/1
Topix(4/1/68)	1494.81	1500.52	1509.13	1509.13	6/5	1320.82	10/4
2nd Section(4/1/68)	1713.82	1713.66	1710.64	1829.21	6/1	1516.50	15/4
Malaysia							
KLSE Comp.(4/4/86)	(c)	1107.14	1090.00	1271.57	25/2	1059.61	29/4
Mexico							
IPC(Nov 1978)	(u)	3774.02	3798.23	3938.89	25/2	3350.48	2/1
Netherland							
CBS TtlRtnGen(End 83)	(c)	905.0	905.3	905.30	6/5	730.80	2/1
CBS All Shr(End 83)	(c)	527.0	529.2	529.20	6/5	429.80	2/1
New Zealand							
Cap. 40(1/7/86)	2321.11	2328.37	2305.24	2440.21	20/1	2207.48	1/4
Norway							
Oslo SE(Ind)(2/1/83)	(c)	1868.47	1868.14	1941.49	20/2	1839.03	2/1
Philippines							
Manila Comp(2/1/85)	2482.10	2694.40	2776.53	3447.69	3/2	2482.10	8/5
Portugal							
BVL 30(4/1/93)	2874.84	2878.49	2880.97	2889.11	5/5	2165.57	2/1
Singapore							
SES All-S'pore(2/4/75)	499.14	502.38	498.57	573.03	17/2	479.94	29/4
South Africa							
JSE Gold(28/9/78)	1214.1♥	1189.3	1212.3	1598.10	27/2	1181.80	2/5
JSE Ind.(28/9/78)	8487.4♥	8503.6	8568.7	8568.76	6/5	7858.50	2/1
South Korea							
KoreaCompEx**(4/1/80)	694.69	699.10	701.57	721.00	14/2	611.85	7/1
Spain							
Madrid SE(30/12/85)	525.85	524.12	524.21	525.85	5/5	434.54	2/1
Sweden							
AffarsvardnGen(1/2/37)	(c)	2783.0	2777.7	2832.40	10/3	2278.50	2/1
Switzerland							
Swiss Bk Ind(31/12/58)	(c)	(u)	2388.39	2382.83	5/5	1817.95	13/1
SBC General(1/4/87)	(c)	(u)	1850.67	1882.52	5/5	1318.14	6/1
Taiwan							
WeightedPr.**(30/6/66)	8349.85	8427.07	8294.27	8661.72	29/4	6844.75	6/1
Thailand							
Bangkok SET(30/4/75)	614.06	625.57	643.28	858.97	22/1	614.06	8/5
Turkey							
IMKB Nat 100(1986)	1459.00	1478.00	1433.00	1654.00	21/3	995.08	2/1
WORLD							
MS Capital Int$(1/1/70)	873.0*	869.3	874.9	874.90	6/5	794.58	14/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	2288.39	2288.19	2289.32	2289.32	6/5	1893.89	2/1
Euro Top-100(26/6/90)	1951.03	1953.27	1951.35	1953.27	7/5	1682.89	2/1
HSBC JC Drgn(31/12/88)	(u)	401.95	400.18	429.46	20/1	381.54	29/4
ING Brngs Emrg(7/1/92)	174.60	175.49	174.69	181.33	26/2	159.74	3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index) (May 7)							
May	2644.0	2630.0	–15.0	2658.0	2618.0	9,840	25,747
Jun	2620.0	2606.0	–15.0	2629.5	2597.0	735	23,742
DAX (May 7)							
Jun	3562.0	3537.0	–13.0	3570.0	3530.5	13,831	154,458
Sep	3584.5	3562.5	–11.5	3590.0	3561.5	93	–
OMX (May 7)							
May	2160.00	2174.00	+5.00	2190.00	2159.00	2,757	24,421
SOFFEX (May 7)							
May	4986.5	5017.0	+33.0	5021.0	4986.5	2,023	25,745
Jun	4993.5	5002.0	–59.5	4993.5	4993.5	10	979

** Sat May 3: Taiwan Weighted Price 8314.87; Korea Comp Ex 704.97. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; IMKB Nat 100 - 1; NYSE All Common – 50; Standard & Poor's – 10 and Amex Comp – 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 7 - 3537.45 –11.07.. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	May 7	May 6	May 5	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7085.65	7225.32	7214.49	7225.32 (6/5)	6391.69 (11/4)	7225.32 (6/5/97)	41.22 (8/7/32)
Home Bonds	101.88	101.96	101.98	103.63 (19/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2584.42	2603.67	2624.01	2624.01 (5/5)	2222.07 (2/1)	2624.01 (5/5/97)	13.23 (8/7/32)
Utilities	223.94	227.99	226.52	240.86 (22/1)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7246.60 (7299.98) Low 7084.78 (7139.43) (Theoretical♣)
Day's high 7225.32 (7289.47) Low 7075.82 (7187.19) (Actual♣)

Standard and Poors	May 7	May 6	May 5	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	815.62	827.76	830.24	830.24 (5/5)	737.01 (2/1)	830.24 (5/5/97)	4.40 (1/6/32)
Industrials♥	959.83	971.57	976.56	976.56 (5/5)	865.42 (11/4)	976.56 (5/5/97)	3.52 (30/6/32)
Financial	91.74	94.44	93.86	97.25 (10/3)	80.75 (2/1)	97.25 (10/3/97)	7.13 (4/9/74)
NYSE Comp.	424.85	430.77	431.43	431.43 (5/5)	389.47 (11/4)	431.43 (5/5/97)	4.64 (25/4/42)
Amex Comp.	570.50	570.51	572.58	603.63 (10/3)	541.20 (28/4)	617.81 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1322.91	1328.30	1339.24	1388.06 (22/1)	1201.00 (2/4)	1388.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	May 2	Apr 25	Apr 18	Year ago
Dow Jones Ind. Div. Yield	1.73	1.82	1.82	2.21
	May 7	Apr 30	Apr 23	Year ago
S & P Ind. Div. yield	1.72	1.75	1.80	1.92
S & P Ind. P/E ratio	23.33	22.89	22.19	21.28

■ NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
Iomega	8,453,100	19	+1½
Lehman Bros	7,607,800	38	+3⅞
Philip Morris	7,573,500	41¼	–⅜
GTE Corp	6,758,000	43½	–1⅝
Micron	6,880,700	37⅛	–1⅝
Fluor	5,396,000	47⅛	–8¼
Bay Network	5,378,700	20⅛	+⅝
Tmstrel	5,242,300	15⅛	+1⅝
Appld Mgntc	3,931,700	32¼	+1⅛
H Packard	3,722,900	53¼	–1

■ TRADING ACTIVITY

● Volume (million)

	May 7	May 6	May 5
New York SE	497,577	583,003	552,578
Amex	19,275	21,773	21,359
NASDAQ	622,575	756,387	847,810
NYSE			
Issues Traded	3,348	3,342	3,338
Rises	847	1,258	1,974
Falls	1,666	1,270	680
Unchanged	835	814	684
New Highs	98	207	290
New Lows	18	16	11

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	817.00	819.50	+1.85	820.50	810.60	81,684	185,104
Sep	823.00	828.00	+1.90	828.00	822.50	1,338	7,691

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Jun	19990.0	20060.0	–20.0	20140.0	19950.0	18,730	229,405
Sep	20010.0	20050.0	–50.0	20150.0	20000.0	313	5,531

Open interest figures for previous day.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

♣ FT Free Annual Reports Service
You can obtain the current annual reports of any company on this page with a ♣ symbol. For North American companies you can either ring +1 804 320 8097, or fax your request to +1 804 320 8135 or order online at http://www.icbinc.com/cgi-bin/ft. For companies from ALL other countries ring 0181 770 0770 or fax your request to 0181 770 3822 (outside UK ring +44 181 770 0770 or fax your request to +44 181 770 3822).

■ TOKYO - MOST ACTIVE STOCKS: Thursday, May 8, 1997

	Stocks Traded	Closing Prices	Change on day
Nippon Oil	8.0m	625	+10
Tokio M & F Ins	6.8m	1400	+30
Nippon Steel Cp	6.6m	385	-2
Mitsubishi Chem	6.5m	408	-12
Mitsubishi Hvy	5.1m	854	-4
Matsushita E Ind	4.8m	2270	-30
Nomura Secs	4.4m	1580	-20
Hitachi	4.2m	1280	
Kawasaki Hvy Ind	3.9m	532	-3
Mycal	3.9m	1590	+20

4 pm close May 8

NEW YORK STOCK EXCHANGE PRICES

- A -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32	24¼	AAR x	0.48	1.5	24	263	31⅛	30⅞	31	-¼
43	33⅛	AMP x	1.04	2.7	31	6957	39⅛	37½	38⅝	+⅛
95¼	78¼	AMR			7	7778	95	93	93¾	+⅛
37⅞	31⅝	ASA	1.20	3.7	21	607	33	32¼	32⅞	+⅛
63¾	49¾	Abbott. x	1.08	1.7	25	12548	63⅛	62¼	62½	-⅛
17½	14⅛	[illegible]	0.40	2.3	8	721	17⅜	17	17¼	+⅛
19¾	17⅜	[illegible]	0.40	2.1	18	382	19⅝	19⅛	19⅜	+⅛
23	17¾	[illegible]			9	216	19	18½	19	+⅛
66⅝	58½	ACE Ltd	0.72	1.2	10	652	61¼	59⅞	60⅞	+½
10¾	10	ACM Gvt In x	0.90	8.8	11	286	10⅜	10¼	10¼	
7⅝	7	ACM GvOpp x	0.63	8.4		223	7½	7⅜	7½	+⅛
9⅞	9¼	ACM Mun x	0.90	9.5		387	9⅝	9½	9½	-⅛
16⅜	6¼	Acme Elect				104	7	6⅞	6⅞	-⅛
20	13¼	Acme Mills				67	14½	14⅛	14⅛	-⅜
17⅞	14	[illegible]			29	1309	17⅛	16	16⅜	-⅞
33	27¼	Acordia	0.80	2.5	15	70	32	31¾	31¾	
29¾	21⅛	[illegible]				910	25½	24¾	24¾	-¾
21⅝	19⅜	Adams Expr	0.55	2.6	1	143	21½	21⅛	21⅜	+⅛
48½	24⅞	[illegible]				29491	44⅞	42⅞	44½	+⅞
15	10⅞	Advest Grp	0.03	0.2	10	112	14	13¾	13⅞	
14⅝	11⅜	Advo Inc			16	135	13¾	13⅝	13⅝	
73⅞	61⅛	Aegon	1.45	2.0	20	286	72⅞	71⅝	72	-¼
5⅛	3⅛	Aeroflex				211	3⅞	3¾	3⅞	
43⅛	33	Aero-V	0.80	1.9	12	879	42	41⅝	41⅝	
68	48	AES Corp				z0	68½	68½	68½	-1
99¼	73	Aetna x	0.80	0.8	72	13267	u99¾	96⅝	98¼	+1½
45⅞	37½	Aflac	0.48	1.1	15	1798	44½	43	43	-1½
31⅝	19¼	AGCO	0.04	0.1	11	z0	28⅝	28⅝	28⅝	-⅛
21⅝	18⅜	AGL Res	1.08	5.8	13	939	19⅝	19¼	19½	-⅛
45¼	32	Ahmanson	0.88	2.2	28	3313	40½	39¼	39¾	+⅛
77⅝	68⅜	AirPrC x	1.10	1.5	20	755	74⅛	72⅞	73⅜	+½
36¾	22¾	Airbne Frt x	0.30	0.8	18	1687	35⅞	35¼	35½	-¼
24½	19½	Airgas			23	958	16⅜	15¾	15¾	-⅛

Continued on next page

NYSE PRICES

4 pm close May 8

Continued from previous page

[illegible]

- X - Y - Z -

1997 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Price	Chng. Prev. Close
65¼	51½	Xerox	1.28	2.0	17	10379	64⅞	63½	63¾	-⅞
45⅞	40½	Xtra Corp	0.80	1.8	17	13	44½	44⅜	44⅜	
29⅞	20¾	Yankee Egy	1.30	6.0	13	150	22	21½	21⅝	-⅛
58	37⅞	York Int	0.48	1.0	14	2807	46⅝	46	46⅝	
5	4	Zapata				252	4¼	4⅛	4⅛	
13⅛	9⅛	ZathEl				1449	11⅝	11¼	11½	+⅛
27⅞	24⅞	Zenith Nat x	1.00	3.7	12	178	27¼	26⅞	27	+⅜
7½	7⅛	Zenix Inc	0.73	10.1		169	7⅜	7¼	7¼	-⅛
29¾	17¾	Zero x	0.12	0.6	14	170	18⅝	18¼	18⅝	
11½	10¾	ZweigFd ♣	1.16	10.1		502	u11½	11¼	11½	+⅛
8¾	8	Zweig Tot x	0.84	9.9		331	8⅝	8½	8½	-¼

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‖ Dealings suspended.

♣ FT Free Annual Reports Service

You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports ring (International Access) 1-804-320-8097 or give the names of the companies whose reports you want and fax your request to (International Access) 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http://www.icbinc.com/cgi-bin/ftl.

AMEX PRICES

4 pm close May 8

[illegible]

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NY TmA	0.60	20	7520	44⅛	43¾	43⅞	-1/16
NVR		7	215	13¾	13½	13½	-⅛
Pegasus G		66	2348	7 1/16	6⅝	6⅝	-¼
Peribl		3	87	7	6⅞	7	+⅛

[illegible]

NASDAQ NATIONAL MARKET

4 pm close May 8

[illegible]

- K -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
K Swiss	0.08	33	4	15 u13⅝	13¼	13⅝	+¼
Kaman Cp	0.44	24	609	13⅞	13½	13½	-⅜
Kelly Sv	0.84	14	281	28¼	27¾	28	+¼
Kimball	1.04	13	73	38½	37¾	37⅞	-⅜
KLA-Tn		25	10946	50⅜	48	49 7/16	+7/16
Koll A			20	3/32	d1/32	3/32	-1/32
Komag ♣		20	14687	33¾	32⅝	32⅝	-½
Kulicke S			4673	31¼	29¾	30 5/16	-1 1/16

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Rainbow ♣		11	578	15¼	14 11/16	14¾	
Rallys			195	3	2 13/16	2 13/16	+1/16
Raymond	0.25	15	482	30½	30	30	-⅛
RCSB Fin	0.60	11	888	31⅝	30 11/16	30¾	-⅞
Read-Rite			18813	29½	27⅜	27¾	-¾

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx ♣		39	30588	u59⅛	54½	56⅞	+2
Xircom		18	4183	13	12¼	12 13/16	+5/16
Xoma Corp			2213	5	4¾	4⅞	+1/16
Yellow			1332	20½	20	20⅜	+⅛
York Rsch		15	455	7⅞	7½	7 9/16	-1/16
ZionsUtah	1.76	19	180	134¼	130	134¼	+3

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$7.125		0	8.25	7	Esprit Telecom ADS	US$5.75	-0.125	13800	12.25	5.75
Artwork Systems	US$10.375		12900	11	9.5	Innogenetics	US$11.5	-0.125	22290	12.75	10.375
Chemunex	FFr16		33518	18	16	Mercer Internatl.	US$9.375xd	+0.375	0	11.75	8.125
Dr Solomon's ADS	US$22.625	+0.75	0	28.5	16.875	PixTech	US$4.375	-0.125	50	8.125	4.25

Prices for 7/5/97. Market closed 8/5/97. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be

EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990).

Dow surges as bonds, techs rally

AMERICAS

US stocks rallied at midsession, helped by some signs of bargain hunting in technology shares and an improvement in bond prices. The bounce helped make up some ground lost in Wednesday's setback, *writes Jane Martinson in New York*.

The Dow Jones Industrial Average rose 101.55 to 7,187.20 but was still below the record-breaking figures achieved earlier in the week.

IBM was the star performer of the leading indicator. The computer giant rose $6½ or 4 per cent to $168⅞ after a positive presentation to analysts.

Other technology stocks benefited from bargain hunting. The technology-driven Nasdaq composite index rose 11.97 to 1,334.88 with Cisco, Microsoft and Intel all among the big gainers.

The broader-based S & P 500 rose 9.06 to 824.68.

A rise in bond prices after a poor performance on Wednesday also helped lift market sentiment. The yield on the benchmark 30-year bond fell to 6.931 per cent.

Mr Michael Metz, chief investment officer at Oppenheimer & Co who has been bearish about the market, described yesterday's early performance as "a little bargain hunting without great conviction so far".

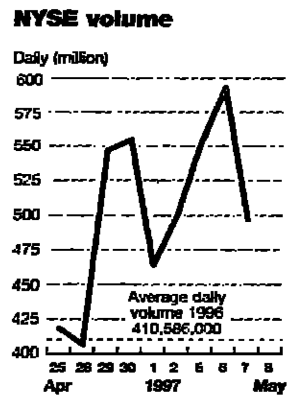
Mr Dick McCabe, stock market analyst at Merrill Lynch, said it was "pretty hard to rationalise these bounces" after a relatively volatile performance this week.

For the second consecutive day, takeover rumours swept the banking sector. PNC Bank fell $1⅜ to $41¼ in response to speculation that it was in talks to buy Oppenheimer & Co.

Demand for airlines helped lift the Dow Jones Transportation Average, which rose 36.37 to 2,630.79, while the Utilities Average moved only slightly after six new groups were introduced to the sector.

TORONTO reversed two days of downward drift, rallying on the back of strong golds and good performances by selected industrials. At noon, the 300 composite index was up 37.28 at 6,158.80.

The better bullion price helped Barrick Gold to a 40 cents gain to C$34.25 and Placer Dome rise by a similar amount to C$26.00.



Rebound in Sao Paulo

SAO PAULO moved ahead strongly from the opening bell, reversing Wednesday's sell-off as talk of an increase in long-distance telecoms tariffs ran round the market.

Telebras, the telecoms giant and index heavyweight, surged R$4.20 reals or 3.3 per cent to R$131 during a morning session of heavy two-way trade. At midsession, the Bovespa index was up 235 or 2.2 per cent at 10,404.

MEXICO CITY had a mixed morning in light trading volume. At midsession, the IPC index was showing a gain of 18.85 to 3,792.87.

Golden opportunity may prove an illusion

William Hall examines the remarkable recent performance of Swiss National Bank shares

What has the Swiss National Bank, Switzerland's central bank, in common with Bre-X Minerals, the Canadian gold mining company? The SNB sits on top of the world's third biggest gold reserve and, until recently, Bre-X claimed to have found the world's biggest gold reserve.

The shares of both companies have attracted the sort of speculative fever that led to Britain's South Sea bubble and Holland's tulip-bulb craze. Bre-X was valued at close to $5bn before its shares were suspended, and the shares of the SNB, which for years hovered between SFr500 and SFr600, have jumped more than four fold in a matter of weeks.

The problem with Bre-X is that no one knows how much gold, if any, it has found. By contrast, everyone knows how much gold the SNB has in its vaults – 2,600 tonnes, currently worth more than $40bn. Yet it still has a stock market capitalisation of less than $300m. No one can remember the last time that the SNB increased its SFr15 a share dividend even though last year it earned SFr10,658 per share. Until recently most of its 3,500 small shareholders treated their SNB shares in much the same way as their Swissair shares. Ownership was a source of pride rather than profit.

The SNB is not a state-owned bank, even though its tasks are laid down in the Swiss constitution. Its main job is to pursue a monetary policy serving the interests of the country as a whole. Some 60 per cent of its shares are held by Swiss cantons and cantonal banks. Although its governing board must consult with the government before taking major economic and monetary policy decisions, it enjoys a high degree of independence.

However, the SNB may not be quite as independent as it seems. Two months ago it surprised everyone by offering to revalue part of its gold reserves to finance a SFr7bn foundation which will be used to help the poor and needy at home and abroad. If the idea gets off the ground – a big if – it could help to refurbish Switzerland's international image, battered by months of allegations about the wartime role of the SNB and the big three Swiss banks.

The decision has been likened to McDonald's, the US fast-food chain, announcing that it was getting out of the hamburger business. The Swiss franc is probably the only major currency which is still linked to gold by law. But the bankers now running the SNB do not worship gold in the same way as their predecessors and have welcomed a recent Swiss government proposal to sever the link between the Swiss currency and gold.

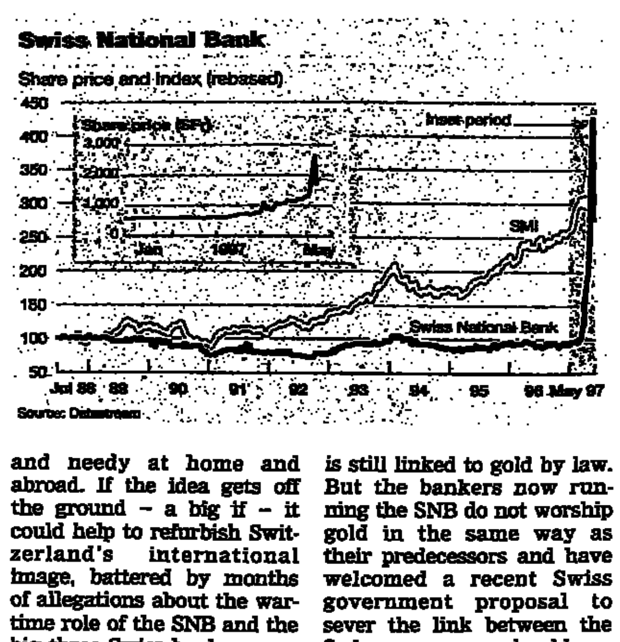
The publicity given to these initiatives helps explain the recent run-up in SNB shares. If the Swiss central bank is losing interest in gold, so one argument goes, then perhaps it should return some of it to its shareholders via a share buy-back. Others argue that its decision to finance the new foundation, however worthy, sets an unfortunate political precedent. What will be the next good cause that the SNB will be called on to finance? Perhaps it will be tempted to buy out its small shareholders to prevent any nasty questions at next year's annual meeting?

A glance at the SNB's statutes suggests investors tempted by this line of speculative thinking are going to suffer a similar sort of fate to the hapless owners of Bre-X Minerals. The SNB's rules on profit distribution are straightforward. The dividend must not exceed 6 per cent of the paid-in capital of SFr250 a share and, after setting aside enough to permit the SNB's unsecured currency reserves to grow in line with the Swiss gross national product, the rest is divided between the cantons and the Swiss confederation.

Last year, they received just over SFr1bn compared with the SFr600,000 which went to SNB's private shareholders. It is not hard to see why some small SNB shareholders may be disgruntled. It is far less easy to understand why trading volume in SNB's 100,000 outstanding shares has jumped from under 200 a week to nearly 10,000 over the last week. During the last fortnight roughly half of the SNB's privately held shares have changed hands.

It would need a change in the Swiss constitution to justify the recent speculative moves in the SNB share price and there is nothing in the wind to suggest that the government is about to rewrite the SNB rule book to benefit the punters who have been buying SNB shares. Nevertheless, the speculation is beginning to damage the SNB's image as a pillar of sound money and orderly financial markets.

It is hard to imagine that the SNB would have adopted such a laisser faire attitude if the Swiss exchange rate had leapt around in the same way as its share price.



Hong Kong ahead for seventh straight session

ASIA PACIFIC

A late rally pushed HONG KONG higher for a seventh consecutive session, bolstered by a surge in Hongkong Telecom as investors assessed full-year earnings and speculated on a deal with a Chinese partner.

The Hang Seng index rose 134.39 to 13,740.30, wiping out an early loss of 158.43 points, and taking the index to its highest level since its record close of 13,868.24 on January 20. Turnover remained heavy at HK$14bn.

Telecom jumped 80 cents to HK$15, its best level for almost a year, after the group announced a slightly better than expected 12.5 per cent rise in net profit for the year to March 31. Warrant-related activity also helped the shares higher.

TOKYO closed mixed as the 225 index rose marginally while other key indices retreated, *writes Gwen Robinson*. The Nikkei 225 average added 12.91 to 20,061.81 after moving between 19,925.39 and 20,107.21. Most stocks suffered selling pressure from the outset, as investors continued to take profits on substantial gains chalked up last week.

Sentiment was further dampened by the broad retreat of securities houses on reports that Yamaichi Securities was planning to liquidate its financially troubled affiliate, Ogawa Securities. Yamaichi denied the report but the market responded negatively and sold banks as well as brokers.

Blue-chip exporters, particularly high-technology issues, were hit by the dollar's overnight decline against the yen and Wednesday's fall in electronics shares in New York. However, buying by domestic pension funds and foreign investors kept the 225 index above the 20,000 level. Traders noted steady buying on dips and predicted the market would head modestly higher after the current consolidation phase.

The Topix index of all first-section stocks shed 5.61 to 1,494.91 and the capital-weighted Nikkei 300 was down 1.11 to 290.83. Volume eased from 580m shares to an estimated 417m. Declines led advances 714 to 414 with 141 unchanged. In London, the ISE/Nikkei 50 index rose 1.90 to 1,617.56.

Many blue chips fell on concerns about the dollar's decline against the yen. TDK shed Y80 to Y9,270, Canon Y50 to Y3,210 and Fuji Photo Film Y80 to Y5,030. Sony was among those to buck the trend, continuing its record-breaking run to add a further Y90 to Y9,730 after reaching a new high of Y9,800 on its announcement of record profits in the business year to March. Honda also advanced, adding Y50 to Y4,150.

The dollar's fall benefited companies dependent on imported materials, in particular oil. All Nippon Airways added Y7 to Y784, Tonen Y20 to Y1,290 and Nippon Oil Y10 to Y625.

Financial issues fared poorly. Yamaichi Securities fell Y13 to Y352, Daiwa Securities Y24 to Y876, Nikko Securities Y10 to Y740 and Nomura Y20 to Y1,560. Banks fell on profit-taking, with Bank of Tokyo-Mitsubishi down Y40 to Y2,070 and Industrial Bank of Japan, Y30 at Y1,320.

In Osaka, the OSE average fell 70.24 to 21,026.92 and volume eased to 61m shares.

BANGKOK continued to slide on selling by foreign funds. At the close, the SET index was off 16.04 at 610.53 for a three-day decline of nearly 8 per cent. The finance sector fell 4.7 per cent with sentiment further unhinged by a rights issue from Union Asia Finance, down Bt2.25 to Bt21.25.

TAIPEI ran into profit-taking as initial optimism over plans for a cabinet reshuffle gave way to political uncertainty. The weighted index, up 77 points at one stage, ended 77.22 lower at 8,349.85. Turnover was again heavy at T$115.5bn. Taiwan Semiconductor fell T$1 to T$102.5. Inventec Corp jumped by the daily 7 per cent limit to T$353 after Intel, the US giant, launched its new microprocessors.

SYDNEY closed lower with interest-rate sensitive stocks hit by comments by the central bank. The All Ordinaries index came off 12.9 to 2,504.7.

The reserve bank governor said wage growth might trigger an interest rate rise. NAB fell 9 cents to A$18.05 and ANZ 5 cents to A$8.32. Among insurers, QBE came off 11 cents to A$7.13 and GIO 7 cents to A$3.80.

News Corp, which announced strong results, eased 5 cents to A$6.01.

SINGAPORE drifted lower with the Straits Times Industrial index losing 8.75 at 2,059.38. With low institutional buying, market wide volume remained a slim 137m shares.

However, Uraco Holdings, a large holder of CAM International stock, suspended amid fraud allegations, saw heavy trade with 8.4m shares changing hands to close up S$0.025 at S$0.865.

SHANGHAI was marked sharply lower on concerns that the securities authorities might introduce measures to cool the markets. The hard currency B index fell 4.871 or 5 per cent to 93.335 while the domestic A index tumbled 6.1 per cent.

Tabacalera tumble hurts Madrid

EUROPE

With most continental European markets closed for Ascension Day, trading was muted in those bourses that did trade.

MADRID edged lower in dull volume, not helped by a steep sell-off at Tabacalera following an outbreak of trading worries. The general index ended off 2.67 at 521.45.

Tabacalera fell Pta260 or 3.5 per cent to Pta7,180 after a Spanish press report suggested that the tobacco giant could be about lose its near monopoly on distribution in Spain.

Endesa added Pta110 to Pta10,670 in spite of lower first quarter results and Uralita also gained ground on dull results. The latter's shares put on Pta15 to Pta1,215.

Repsol shed Pta80 to Pta5,960 ahead of next week's results. The shares were heavily traded after its was learned that Caja de Cataluna, the savings bank, had acquired 3 per cent of the group. Strong first quarter profits 41 per cent higher left Telepizza, the fast expanding pizza chain, Pta20 harder at Pta6,700.

MILAN was modestly lower but pulled up from its worst levels as the early rally on Wall Street breathed some life into the session.

The Comit index fell 6.86 at 765.38.

Rinascente, the retailer, fell another L96 to L8,490 after Wednesday's L772 plunge on the news that it would launch a capital increase to finance the acquisition of the Italian activities of the French distribution company, Auchan.

Edison, the energy company recovered L95 to L8,345 after its sharp falls earlier in the week on news of plans by Enel and Eni to form a joint venture in the electricity sector.

ISTANBUL turned back after soaring 6.2 per cent the previous two sessions as worries resurfaced over the fate of the Islamist led coalition. The IMKB-100 index closed 19 or 1.3 per cent lower at 1,459 after a former trade and industry minister, Mr Yalim Erez of the True Path Party, said that he was confident of forming an alliance with other secularist politicians to oust the Islamist led government of Mr Necmettin Erbakan.

ATHENS lost some of its early enthusiasm as an extended rally in banks slowed down on profit-taking. The Athens general index, up 1.6 per cent early in the day saw the gains eroded and it closed 6.94 ahead at 1,544.47.

Written and edited by Michael Morgan, Jeffrey Brown and Uttara Choudhury

FTSE Actuaries Share Indices

May 8								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2286.55	2285.94	2288.38	2285.51	2285.23	2286.39	2287.08	2286.30
FTSE Eurotrack 200	2315.36	2317.37	2315.21	2317.02	2314.73	2315.31	2318.85	2320.54

	May 7	May 6	May 2	May 1	Apr 30
FTSE Eurotrack 100	2286.19	2289.32	2247.27	2229.09	2210.83
FTSE Eurotrack 200	2228.20	2325.75	2278.60	2264.94	2251.95

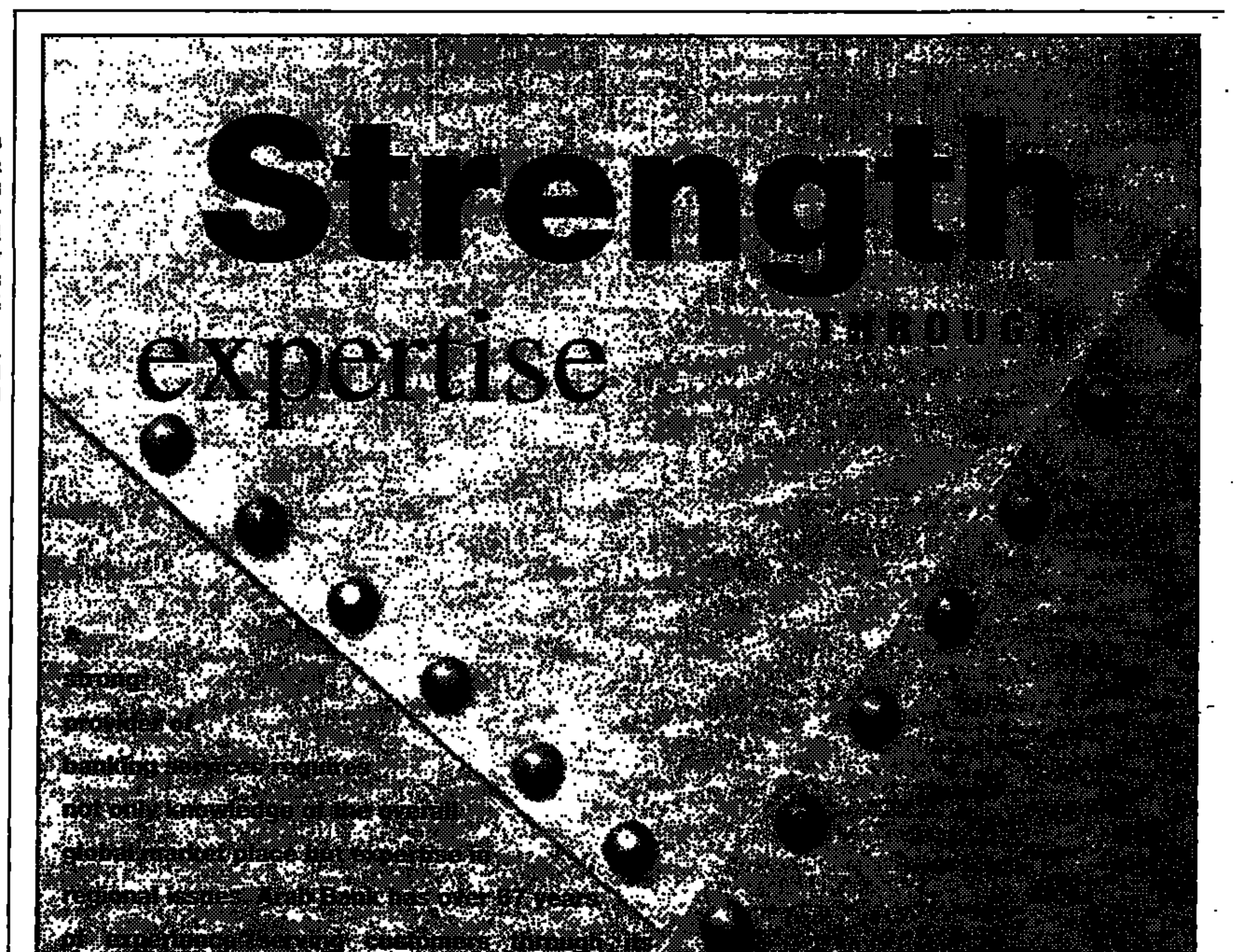
Base value 1000 (26/10/90); [illegible]

SOUTH AFRICA

Golds rallied strongly in Johannesburg but were unable to halt further downward drift in the broad market which left the all-share index off 2.2 at 7,162.9.

Golds scooped all honours thanks to a bounce for the bullion price, back to within a whisker of $344 in the South African trading day. The golds index closed up 24.8 or 2.1 per cent at 1,214.1.

By contrast, industrials were weak and the index declined 6.2 to 8,497.4.



FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY MAY 7 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY MAY 6 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	228.87	0.1	207.35	180.61	204.58	196.31	0.3	3.68	228.70	207.17	181.29	204.87	195.70	228.87	188.44	212.18
Austria (24)	185.90	1.3	168.43	146.71	166.18	166.13	1.1	1.91	183.48	166.20	145.45	164.36	164.31	195.04	174.70	186.49
Belgium (26)	243.43	-0.6	220.55	192.10	217.60	213.05	-0.8	3.36	244.94	221.88	194.17	219.42	214.83	244.94	205.89	207.70
Brazil (30)	248.62	-0.7	225.25	196.20	222.24	487.33	-0.7	1.55	250.39	226.82	198.49	224.30	490.66	250.39	161.46	161.46
Canada (114)	196.63	-0.5	178.15	155.17	175.77	196.66	-0.3	2.00	197.55	178.95	156.60	176.96	197.22	203.31	154.12	162.93
Denmark (32)	368.50	-0.1	333.86	290.80	329.40	328.07	-0.4	1.54	368.81	334.09	292.37	330.39	329.28	376.98	291.89	297.31
Finland (26)	262.95	-1.1	238.23	207.51	235.05	285.76	-1.2	1.60	265.73	240.72	210.66	238.05	289.31	268.58	183.06	186.59
France (91)	218.65	-0.1	198.10	172.55	195.45	198.96	-0.3	2.88	218.83	198.23	173.47	196.03	199.64	226.25	186.94	194.54
Germany (59)	207.26	-0.2	187.78	163.56	185.26	185.26	-0.4	1.52	207.71	188.15	164.66	186.07	186.07	207.71	165.02	166.50
Hong Kong (66)	484.46	-0.1	438.92	382.31	433.05	481.78	-0.1	3.12	484.82	439.18	384.33	434.31	482.23	514.49	407.55	421.27
Indonesia (27)	232.76	1.6	210.88	183.68	208.06	347.12	1.8	1.57	229.19	207.62	181.69	205.32	340.96	-	-	-
Ireland (16)	338.94	0.0	307.08	267.48	302.97	316.11	-0.5	3.02	338.90	307.00	268.66	303.59	317.70	343.35	270.08	277.39
Italy (59)	89.00	-0.4	80.63	70.23	79.55	113.06	-0.8	2.19	89.34	80.93	70.82	80.03	113.92	96.32	73.26	83.24
Japan (485)	123.44	-0.2	111.83	97.41	110.34	97.41	-0.6	0.80	123.64	112.00	98.01	110.75	98.01	159.83	107.57	159.10
Malaysia (107)	545.02	1.5	493.79	430.11	487.19	526.97	1.7	1.20	536.78	486.24	425.52	480.85	518.07	660.85	512.47	569.25
Mexico (27)	1351.65	-1.2	1224.60	1066.67	1208.23	11694.75	-0.7	1.24	1367.51	1238.77	1084.07	1225.04	11777.43	1445.68	1110.35	1227.71
Netherland (19)	359.41	-0.2	325.63	283.63	321.27	317.28	-0.5	2.47	360.30	326.38	285.62	322.76	318.73	360.30	279.88	291.37
New Zealand (14)	87.50	1.1	79.28	69.05	78.22	67.86	1.5	4.18	86.56	78.41	68.61	77.54	66.88	95.60	75.94	81.72
Norway (41)	298.24	0.1	270.21	235.36	266.60	288.34	-0.1	2.12	297.82	269.79	236.09	266.80	288.54	321.23	243.72	247.39
Philippines (22)	162.54	-3.7	147.26	128.27	145.29	213.54	-3.7	0.87	168.74	152.85	133.77	151.16	221.67	-	-	-
Singapore (43)	386.18	1.4	349.88	304.76	345.20	257.37	1.4	1.10	380.93	345.07	301.97	341.24	253.89	448.01	360.08	431.36
South Africa (44)	361.28	-1.2	327.32	285.11	322.94	351.83	-1.1	2.39	365.52	331.11	289.76	327.44	355.88	370.12	301.49	360.31
Spain (35)	235.64	0.3	213.49	185.96	210.63	258.92	0.0	2.53	234.92	212.81	186.23	210.45	259.00	235.64	171.91	175.99
Sweden (49)	436.49	1.2	395.46	344.46	390.18	499.89	0.3	2.09	431.18	390.60	341.82	386.27	498.60	448.64	334.35	343.77
Switzerland (36)	277.88	0.9	251.76	219.29	248.39	251.33	0.5	1.33	275.41	249.48	218.33	246.72	249.99	277.88	229.36	237.30
Thailand (43)	71.80	-2.3	65.05	56.66	64.18	72.65	-2.3	4.29	73.49	66.57	58.26	65.83	74.36	184.18	71.80	182.50
United Kingdom (211)	294.11	0.3	266.46	232.10	262.90	266.46	0.4	3.70	293.10	265.51	232.35	262.56	265.51	294.11	228.85	229.08
USA (652)	330.33	-1.4	299.28	260.68	295.28	330.33	-1.4	1.84	335.04	303.50	265.60	300.13	335.04	336.17	254.79	260.55
Americas (823)	302.07	-1.4	273.67	238.38	270.01	254.35	-1.3	1.84	306.21	277.38	242.74	274.30	257.81	307.12	233.09	239.42
Europe (726)	254.14	0.2	230.25	200.55	227.17	235.95	0.0	2.69	253.66	229.78	201.08	227.23	235.98	254.14	204.71	207.03
Nordic (150)	376.84	0.6	341.42	297.39	336.85	372.94	-0.1	1.94	374.70	339.42	297.03	335.66	373.29	385.85	291.45	295.47
Pacific Basin (883)	142.23	0.0	128.86	112.24	127.14	110.78	-0.3	1.31	142.28	128.89	112.79	127.46	111.17	172.48	127.18	171.99
Euro-Pacific (1609)	188.90	0.1	171.14	149.07	168.86	158.06	-0.2	2.07	188.73	170.96	149.61	169.07	158.31	191.51	173.55	186.48
North America (766)	322.13	-1.4	291.85	254.21	287.95	321.47	-1.4	1.85	326.58	295.84	258.89	292.56	325.89	327.69	248.65	254.46
Europe Ex. UK (515)	227.18	0.1	205.83	179.29	203.08	214.18	-0.2	2.10	226.96	205.59	179.92	203.31	214.66	227.18	185.65	189.76
Pacific Ex. Japan (398)	302.16	0.3	273.76	238.45	270.10	263.45	0.4	2.79	301.13	272.78	238.72	269.76	262.28	320.65	268.97	292.47
World Ex. US (1824)	192.23	0.0	174.16	151.70	171.83	163.99	-0.2	2.06	192.19	174.09	152.35	172.16	164.30	193.47	176.94	187.62
World Ex. UK (2265)	230.63	-0.8	208.95	182.01	206.16	206.12	-0.9	1.77	232.39	210.51	184.22	208.18	207.96	232.39	199.58	207.86
World Ex. Japan (1991)	293.76	-0.7	266.15	231.83	262.59	284.05	-0.8	2.19	295.96	268.09	234.61	265.12	286.31	295.96	233.10	236.35
The World Index (2476)	236.04	-0.7	213.85	186.27	211.00	211.64	-0.8	1.96	237.58	215.21	188.33	212.83	213.26	237.58	202.32	209.80

CONSTITUENT CHANGES WITH EFFECT 9/5/97: Deletions: Bre-X Minerals (Canada) and Sulzer (Brothers) PC (Switzerland). Latest prices were unavailable for this edition.